property, the book cost of which is includible in Account 390, Structures and Improvements; Account 391, Office Furniture and Equipment; Account 397, Communication Equipment; and Account 398, Miscellaneous Equipment. (See § 1767.17 (b).)

B. Maintenance expenses on office furniture and equipment used elsewhere than in general, commercial, and sales offices shall be charged to the following accounts:

1. Steam Power Generation, Account 514
2. Nuclear Power Generation, Account 532
3. Hydraulic Power Generation, Account 545
4. Other Power Generation, Account 554
5. Transmission, Account 573
6. Distribution, Account 598
7. Merchandise and Jobbing, Account 416
8. Garages, Shops, etc., Appropriate clearing account, if used.

NOTE: Maintenance of plant included in other general equipment accounts shall be included herein unless charged to clearing accounts or to the particular functional maintenance expense account indicated by the use of the equipment.

§§ 1767.32—1767.40 [Reserved]

§ 1767.41 Accounting methods and procedures required of all RUS borrowers.

All RUS borrowers shall maintain and keep their books of accounts and all other books and records which support the entries in such books of accounts in accordance with the accounting principles prescribed in this section.

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101 Work Order Procedures

When a minor item of property is removed from service and not replaced, a retirement work order is not required except in the case of a conductor. The cost of the minor item shall remain in the appropriate plant account until the retirement unit, of which it is a part, is retired. However, as conductor is recorded in feet and is not part of any specific retirement unit, conductor shall be retired even though the amount taken down and not replaced is less than a retirement unit (two spans).

When minor items of plant are removed and not replaced, material salvaged shall be recorded on a material salvage ticket. Items of material recorded on this ticket shall be charged to the materials and supplies account and credited in the miscellaneous columns of the Materials Register to the Accumulated Provision for Depreciation. In this example, it is assumed that the cost of removal is nil. If, however, costs are incurred during the removal of minor items of plant, these costs shall reduce the credit to the Accumulated Provision for Depreciation.

When a staking sheet supporting a single work order reflects a combination of new construction and replacements, or system improvements, the predominant cost shall be the governing factor in determining the amount of cost RUS will finance. To illustrate, assume that a service is to be run to a new home near the end of an existing line. On inspection, the pole from which the service is to be run is found to be in very poor physical condition and must be replaced. In addition, a single span of wire and a service are presently connected to this pole which serve no purpose. The home originally served has been demolished and the existing span, pole, and service were retired. In other words, what started out to be simply the installation of a new service now includes the retirement of a span of wire, a pole, and a service; the replacement of a pole; and the running of a new service. Assuming the replacement of the pole is the costliest part of this project, the construction and retirement activity shall be classified as an ordinary replacement even though the work includes new construction and retirements without replacement.

102 Line Conversion

If it is necessary to move a conductor from one location to another on a pole assembly during the conversion of a line from one phase to another phase, the cost of moving the conductor is capitalizable as a system improvement.

103 Sacrificial Anodes and the Replacement of a Neutral

Many utilities conduct studies to determine whether sacrificial anodes are needed to protect underground cable against corrosion. The following procedures shall be followed to account for sacrificial anodes and the replacement of a neutral:

1. If the study results in the installation of sacrificial anodes, the cost of the study shall be capitalized to Account 367, Underground Conductors and Devices. If the study does not result in the installation of anodes, the cost shall be charged to Account 594, Maintenance of Underground Lines.

2. Costs incurred in the first installation are capitalizable even though anodes are considered minor items of property. However, only the first costs of installation shall be capitalized. All subsequent replacements of anodes shall be expensed.

3. Sacrificial anodes do not constitute a record unit; therefore, the cost of anodes shall be added to the cost of the underground cable unit.

4. Because a neutral is part of an underground cable record unit, and is not, in and of itself, a record unit, the cost to replace a corroded neutral shall be charged to Account 594, Maintenance of Underground Lines.

104 Terminal Facilities

Borrowers are sometimes required to construct terminal facilities in the transmission line of another utility in order to receive power from their power supplier. The document executed between the borrower and the utility is normally referred to as a ''License Agreement''. The license agreement may stipulate that certain items of the terminal facilities are to be transferred to, and become the property of, the other utility upon completion of the construction. The accounting for this type of transaction shall be as follows:

1. All construction costs incurred shall be charged to a work order. Upon completion of the construction and accumulation of all costs, the cost of the facilities that become the property of another utility shall be transferred from construction work-in-progress to Account 186, Miscellaneous Deferred Debits. The cost of the plant for which the borrower retains title shall be charged to the appropriate plant accounts.

2. The cost of the facilities recorded in Account 186, Miscellaneous Deferred Debits, shall be amortized to Account 557, Other Expenses, over the estimated useful service life of the plant. If the related contract or contracts for this power supply are terminated, the unamortized balance shall be expensed, in the current period, in Account 557.

105 Pole Top Disconnect Switch

The installation of pole top service disconnect switches, where title is retained by the utility, shall be capitalized in Account 371, Installations on Customers' Premises. If a switch cabinet is purchased with a current transformer included as an integral part of the cabinet, the entire cost of the switch shall be charged to Account 371. If the current transformer is installed outside of the switch cabinet, the transformer, meter, and meter base, together with the first installation costs, shall be capitalized, upon purchase, in Account 370, Meters.

Payments received from the customer toward construction costs shall be credited to Account 371, Installations on Customers' Premises. Such payments, together with any amount not financed by RUS, shall be entered in column 9 of the RUS Form 219, Inventory of Work Orders. The associated maintenance costs shall be charged to Account 587, Customer Installations Expenses, or to Account 597, Maintenance of Meters, as appropriate.

When pole top disconnect switches are installed and title is held by the customer, the cost of the material shall be charged to Account 456, Other Electric Revenues and the receipts from the sale of line material shall be credited to Account 456. The portion of the receipts for resale material as well as that for installation shall be credited to Account 415, Revenues from Merchandising, Jobbing, and Contract Work. The cost of resale material sold and the cost of installation shall be charged to Account 416, Costs and Expenses of Merchandising, Jobbing and Contract Work.

Future maintenance costs incurred by the cooperative that are not billed to the customer shall be charged to Account 587, Customer Installations Expenses.

106 Steel Pole Reinforcers

The cost associated with the purchase and installation of steel pole reinforcers shall be charged to Account 593, Maintenance of Overhead Lines.

107 Mobile Substations

Mobile substations shall be accounted for in a manner similar to that for a spare and are, therefore, included as part of transmission or distribution station equipment, depending upon the use of the mobile substation. The mobile substation, together with the trailer on which it is permanently mounted, shall be capitalized upon purchase. A general purpose truck or tractor used to relocate a mobile substation and trailer shall be classified as transportation equipment.

The composite depreciation rate used for transmission plant or distribution plant, as appropriate, shall be applied to the mobile substation.

108 Security Lights

Where a pole supports both a secondary wire and a security light, the cost of the pole shall be charged to Account 364, Poles, Towers, and Fixtures, even though the plant investment in security lights is recorded in Account 371, Installations on Customers' Premises.

109 Joint Use

There are many cases in which an electric utility and a communications utility enter into an agreement that provides for joint use of poles. Under the terms of these agreements, either utility may occupy the poles of the other upon payment of a stipulated annual rental. If such joint occupancy necessitates the use of a higher than standard pole, the new pole shall be provided at the expense of the utility having the need for the higher pole.

When an electric utility replaces, at its own expense, a standard pole belonging to the communications utility with a higher pole, the cost of the higher pole, less net salvage (if any) of the pole replaced, shall be charged to the account in which the pole rental is included.

Contributions made to an electric utility by a communications utility for the costs incurred in stubbing joint use electric poles shall be credited to Account 593, Maintenance of Overhead Lines. The cost of pole stubbing on electric plant distribution facilities shall be charged to Account 593.

An investment in outside plant that is held in joint ownership shall be recorded in the appropriate plant accounts at its cost to the utility. For continuing property record purposes, jointly owned property units shall be priced at their cost to the utility and shall be appropriately segregated in the CPRs to indicate joint ownership.

110 First Clearing and Grading of Land and Rights of Way

Utility accounting practice requires the costs associated with the first clearing and grading of land and rights of way and any resulting damage thereto, to be included in the accounts for structures and improvements or equipment to which such costs relate. Since the first clearing, as well as clearing which is ''directly occasioned by the building of a structure,'' is done, not for the purpose of enhancing the value of the land or the rights of way, but for the purpose of constructing plant, these costs are more directly related to the construction of plant than to the purchase of land or rights of way. The accounts shall be charged as follows:

1. For overhead transmission pole lines, Account 356, Overhead Conductors and Devices;
2. For overhead distribution lines, Account 365, Overhead Conductors and Devices; and
3. For underground distribution lines, Account 366, Underground Conduit, for a conduit installation; or Account 367, Underground Conductors and Devices, for a direct burial installation.

111 Engineering Contracts for System Planning

Engineering costs for long-range system plans shall be charged to Account 183, Preliminary Survey and Investigation Charges, as incurred. The cost of engineering services incurred in preparing a long-range system plan represents a legitimate component of the total cost of construction of all system improvements detailed in the plan. The amount of engineering costs to be associated with any specific system improvement is the annual costs incurred up to the time of the allocation (not previously allocated), plus that portion of the initial cost which relates to the particular construction in question. If any major system improvement included in the engineering plan is not constructed, or if the study is superseded by another complete study, the cost of that portion of the original study not resulting in construction shall be charged to Account 182.2, Unrecovered Plant and Regulatory Study Costs, if the costs are to be recovered through future rates. Costs recorded in Account 182.2 shall be amortized to Account 407, Amortization of Property Losses, Unrecovered Plant and Regulatory Study Costs, as the costs are recovered through the rates. Any costs included in Account 182.2 that are disallowed for rate-making purposes shall be charged to Account 426.5, Other Deductions.

The allocation of engineering services to the various construction projects requires the exercise of judgment. In some cases, system improvements are continuous over a period of months or years, thus permitting the engineering cost to be spread monthly as overhead in relation to the direct costs incurred in construction. (If a substantial amount of retirement work is performed in connection with system improvements, a proportionate share of the engineering cost shall be allocated on the basis of direct retirement labor.) If the system improvements detailed in the plan are not performed in a continuous manner, the engineering cost shall be allocated on the basis of the estimated costs of the various larger system improvement projects which result from the long-range plan.

If construction is performed by contract, the engineering cost applicable thereto shall be transferred from Account 183 to Account 107, Construction Work-in-Progress—Electric, and thereby spread to the appropriate plant accounts on the basis of contract costs.

In the case of system improvement construction performed on the basis of work orders, engineering costs shall be transferred to Account 107, Construction Work-in-Progress—Electric, and included in total work order costs as either overhead or special services. If engineering services are not readily identifiable with individual work orders, they shall be capitalized as overhead. If engineering costs for each work order are readily separable from the engineering costs for all other work orders, they shall be capitalized as special services.

In summarizing system improvement work orders on the RUS Form 219, Inventory of Work Orders, the amount of engineering costs previously approved for advance on the long range plan, if any, shall be deducted to determine the balance of loan funds subject to advance by RUS.

112 Determination of Availability of Service

Costs relating to the determination of availability of service, rates, and similar items for individual applicants shall be charged to Account 912, Demonstrating and Selling Expenses. If it is expected that construction will result, the costs incurred to provide service, including staking, shall be charged to Account 107, Construction Work-in-Progress—Electric. If construction does not result, Account 107 shall be credited and Account 426.5, Other Deductions, shall be charged.

113 Temporary Facilities (Services)

Plant installed for temporary use, a period of less than 1.ar, shall be recorded in Account 185, Temporary Facilities, net of any payments received from customers. Upon retirement, this net cost plus cost of removal, less any salvage value, shall be cleared to Account 451, Miscellaneous Service Revenues.

When a temporary service is installed at the site of a building under construction, the location of the permanent service entrance and the load and its characteristics are usually known. The temporary service is of the proper capacity and is so located or has sufficient slack, that it can be relocated to serve the new building as a permanent service. Under these conditions, the service shall be charged to Account 369, Services, when first installed. The cost of moving and attaching the service to the permanent service entrance shall be charged to Account 593, Maintenance of Overhead Lines or Account 594, Maintenance of Underground Lines, as appropriate.

114 Construction Work-in-Progress Damaged or Destroyed by Storm

When installed plant, not yet completed or completed but not yet placed in service, has been damaged or destroyed by storm, the cost of the repair and restoration shall be added to the cost of construction and capitalized if the plant was constructed under force account or work order construction, and the utility paid for the cost of the repairs. If the plant was constructed under contract, the contractor is required to deliver the plant in new condition. Therefore, any repairs required prior to the completion of construction and acceptance by the utility, are ordinarily borne by the contractor.

115 Liquidated Damages

Liquidated damages are amounts paid by or assessed against contractors for the completion of construction after an agreed upon date. Liquidated damages shall be credited to Account 107, Construction Work-in-Progress—Electric. Since these damages accrue during the construction period, they become one of the components of construction cost. Even though a portion of these damages may compensate the utility for costs which are not ''identifiable,'' no portion of the damages shall be credited to revenue or expense.

When a contractor has been paid in full from loan funds or from funds to be reimbursed by loan funds without a deduction for liquidated damages, the amount of liquidated damages received shall be deposited in the Construction Fund. This amount shall be reflected by a decrease in column 5, ''Total Expenditures to Date,'' of the RUS Form 595, Financial Requirement and Expenditure Statement, and as an increase in column 6, ''Cash Balance.'' If liquidated damages are obtained by withholding an equivalent amount from the contractor's payment, the net result will be the same.

116 Nonrefundable Payments for Construction

Nonrefundable payments (contributions) from customers and developers for underground construction shall first be credited to Account 107.2, Construction Work-in-Progress—Force Account. When the constructed plant is unitized and distributed to the individual plant accounts, the contributions shall be credited to those plant accounts which gave rise to the contribution.

When a customer or developer furnishes a trench or other service in connection with buried plant, the cooperative shall debit Account 107.2 with the actual or estimated cost of the service performed, and account for the credit as set forth above.

117 Refunds of Overpayments for Materials and Equipment

Refunds of overpayments for materials and equipment previously purchased are occasionally received as the result of legal action brought against electrical suppliers for price fixing in violation of antitrust laws. Such refunds shall be accounted for as follows:

1. The refund shall first be applied to any litigation costs that were incurred.

2. Refunds for special equipment items shall be accounted for, in detail, on the Summary of Special Equipment Costs and credited against the appropriate plant accounts.

3. Other material or equipment items that were installed through work orders or a materials furnished contract shall be adjusted on an amended work order. The amended work order shall include full details of the refund.

4. Continuing property records shall be adjusted to reflect the above transactions.

5. Amounts approved for advance on the RUS Form 595, Financial Requirement and Expenditure Statement, and on the loan budget records, shall be adjusted. For special equipment items, the adjustment shall be requested in a letter to RUS. For materials installed by work order or contract, the adjustments shall be made through credits shown on the RUS Form 219, Inventory of Work Orders.

6. Refunds for material currently in stock shall be credited to Account 154, Plant Materials and Operating Supplies.

7. If the material was used in maintenance activities or operations, the refund shall be credited to the appropriate maintenance or operations expense account.

8. Refunds for materials or equipment financed from loan funds shall be deposited in the Construction Fund—Trustee Account or remitted to RUS as a special payment on a note. Other refunds shall be deposited in the general funds.

118 Load Control Equipment

The primary purpose of a Load Management System is to optimize load dispatch and to reduce or minimize system peaks in order to reduce purchases of power or to delay or eliminate the need for construction of new plant. A Load Management System may be used on integrated systems, or on generation, transmission, or distribution systems separately. The telemetry equipment used for data acquisition and interpretation may be included at various points on a system, such as generation, transmission, or distribution substation, switchyards or on consumers' premises.

An effective load control program should be coordinated with the G&T and requires full participation of all member distribution systems. The G&T monitors the power load of the total member distribution system to predict the time of the system's peak load. An optimal load control strategy is developed by the G&T and is passed on from the G&T computer system to the load control computer systems of the member distribution cooperatives.

The equipment at the member distribution system level is the type actually being used by an integrated power system to operate a load control program. The equipment used may vary from one integrated power system to another. The selection of equipment used is determined by the information needs of the integrated power system, and the method selected to operate the load control system.

Some equipment performs only SCADA-type functions. This equipment is included with the equipment that performs only load control functions because SCADA-type equipment is an integral part of a load control program. An effective load control strategy requires current information on loads so that member distribution systems can determine the actual loads to be shed and the duration of the load control.

The function and location of the load control equipment are the primary factors in determining the account in which the equipment shall be recorded. The following example depicts a common load control system and the associated accounting. Equipment type may vary, thereby necessitating the use of accounts not prescribed below. In all instances, however, the function and location of the equipment shall dictate the appropriate account classification.

G&T Borrower

1. *Coordinating System Equipment*

Coordinating System Equipment is the data acquisition, processing and control hardware and software used to coordinate the load control efforts of the member distribution system. Generally, this equipment is dedicated to load control use and is not shared with other electric utility activities.

The purpose of the G&T load control computer system is to reduce or minimize the peak power requirements of the entire member distribution system. This involves load dispatching to control transmission circuits and breakers. The computer system for load control shall, therefore, be recorded in Account 353, Station Equipment, with the associated operating expenses recorded in Account 561, Load Dispatching, and maintenance expenses recorded in Account 570, Maintenance of Station Equipment.

2. *Coordinating System Communications Link*

The G&T load control computer system is usually linked to the load control computer system for each member distribution system by a radio or telephone link that is dedicated to that purpose and is not shared with other communication activities. Under such circumstances, communications equipment shall be classified in Account 353, Station Equipment. If the communications equipment is shared with general use or voice communications equipment, however, the equipment shall be classified in Account 397, Communication Equipment.

3. *Depreciation*

Load control equipment shall be recorded in separate subaccounts of the primary plant accounts detailed above and shall be depreciated based upon the owner's estimate of the equipment's useful service life.

Distribution Borrower

1. *Member System Equipment*

Member system equipment is the data acquisition, processing and control hardware and software used as a subset to the overall load control efforts by the integrated power system.

The member system computer for each distribution member system accepts the control strategy from the G&T coordinating system and develops the tables that determine the control loads that are to be shed and the duration of the load control. The member system computer for each distribution system monitors the usage at each of its delivery points. This usage data is then transmitted to the G&T coordinating system for use in developing load projects and evaluating control strategies for the integrated power system. The member system computer is generally dedicated to load control use and is not shared with other electric utility operations.

The member computer system shall be recorded in Account 362, Station Equipment. The associated operating expenses shall be recorded in Account 581, Load Dispatching, and maintenance expenses shall be recorded in Account 592, Maintenance of Station Equipment.

2. *Substation Remote Controllers*

Substation Remote Controllers are located at the distribution substation. They accept control signals from the member system computer and couple the signal to the portion of the distribution system to which it is connected. Substation Remote Controllers also serve as a receiver of inbound signals from transponders located in the distribution system. They also send data back to the member system computer.

Substation Remote Controllers shall be recorded in Account 362, Station Equipment. The associated operating expenses shall be recorded in Account 582, Station Expenses, and maintenance expenses shall be recorded in Account 592, Maintenance of Station Equipment.

3. *Substation Injection Units*

Substation Injection Units are used only in power line based systems and are located in distribution substations. A major function of the Substation Injection Unit is to receive load control signals from the member system computer and inject them into the power line based system to be transmitted to the Load Control Receivers. Substation Injection Units can also perform control and SCADA functions similar to those performed by Substation Remote Controllers.

Substation Injection Units shall be recorded in Account 362, Station Equipment. The associated operating expenses shall be recorded in Account 582, Station Expenses, and maintenance expenses shall be recorded in Account 592, Maintenance of Station Equipment.

4. *Remote Terminal Units*

Remote Terminal Units perform electric utility SCADA functions in a distribution substation or delivery point. These functions include monitoring equipment for abnormal operating conditions, monitoring analog quantities such as conductor voltage or substation load, and controlling of certain equipment within the substation.

Remote Terminal Units shall be recorded in Account 362, Station Equipment. The associated operating expenses shall be recorded in Account 582, Station Expenses, and maintenance expenses shall be recorded in Account 592, Maintenance of Station Equipment.

5. *Line Device Transponder*

A Line Device Transponder directly controls a piece of distribution apparatus, such as a voltage regulator or a power factor correction capacitor, located on a distribution feeder and not accessible to a Remote Terminal Unit. The Line Device Transponder actuates the control functions and reports back to the member system computer upon completion of the requested action. This transponder is located at the site of the distribution apparatus being controlled.

Line Device Transponders shall be recorded in Account 368, Line Transformers. The associated operating expense shall be recorded in Account 583, Overhead Line Expenses, or Account 584, Underground Line Expenses, as appropriate, and maintenance expenses shall be recorded in Account 595, Maintenance of Line Transformers.

6. *Communications Verification Transponders*

Communication Verification Transponders are used to respond to inquiries from Substation Remote Controllers. In power line based systems, these transponders are used to verify the performance of the communications system. They are also used during adverse system operations to isolate sections of the distribution system that are experiencing an outage.

Communication Verification Transponders shall be recorded in Account 362, Station Equipment. The associated operating expenses shall be recorded in Account 582, Station Expenses, and maintenance expenses shall be recorded in Account 592, Maintenance of Station Equipment.

7. *Load Control Receivers*

The Load Control Receiver, also known as a load control switch, is located at the site of the consumer's load. These receivers directly control the electric supply to an end-use appliance, such as an electric water heater, central air conditioning compressor, or irrigation pump. The amount of time that an appliance will be turned off by the load control receiver is preset. When the member system computer determines that load shedding is necessary, it sends a signal to the communication link which then sends signals directly to the Load Control Receivers. In a power line based system, the signal from the communications link is sent by radio or telephone line to the Substation Injection Units, which then signals the Load Control Receivers to shut down the appliances for the present time. In nonpower line based systems, the signal from the communications link is sent by radio directly to the Load Control Receivers.

Load Control Receivers are located on the consumer's side of the meter. When the member distribution system retains title to the Load Control Receivers and assumes full responsibility for maintenance and replacement of the equipment, it shall be classified in Account 371, Installations on Customer's Premises. Load Control Receivers that are donated or given to consumers shall be charged to Account 908, Customer Assistance Expenses.

Operating and maintenance expenses applicable to Load Control Receivers recorded in Account 371 shall be charged to Account 587, Customer Installations Expenses, and Account 598, Maintenance of Miscellaneous Distribution Plant, respectively. Expenses applicable to Load Control Receivers donated or given to consumers shall be recorded in Account 908, Customer Assistance Expenses.

Load Control Receivers may be moved on a continual basis from one customer location to another and are, therefore, considered to be special equipment items. When ownership is maintained by the member distribution cooperative, Load Control Receivers shall be accounted for in accordance with the special equipment procedures outlined in Accounting Interpretation No. 119 of this section.

8. Communication Links

The communication link in the member distribution systems between the Member System Computer, the Substation Remote Controllers or Substation Injection Units, Remote Terminal Units, Line Device Transponders, Communication Verification Transponders, and Load Control Receivers is usually accomplished by radio, telephone line, or power line based system. The communication links are normally dedicated to the SCADA and load control functions being served. Under such circumstances, communications equipment shall be recorded in Account 362, Station Equipment. If, however, the communication equipment used is shared with general use or voice communications equipment, the equipment shall be charged to Account 397, Communication Equipment.

9. *Depreciation*

Load control equipment shall be recorded in separate subaccounts of the primary plant accounts detailed above and shall be depreciated based upon the manufacturer's estimate of the equipment's useful service life.

119 Special Equipment

Special Equipment items are classified as such because they are continually being moved from one location to another due to load changes and maintenance practices. The USoA provides accounting that differs from that used for other types of materials. The cost, new, of special equipment items shall be capitalized at the time of purchase; it shall not be charged to Account 154 as is the case with other materials. The first installation cost, as well as all incidental costs necessary to prepare the equipment for use, shall be capitalized with the material upon purchase. All subsequent costs of removing, resetting, changing, renewing oil, and repairing constitute operations and maintenance expenses. The capitalized cost of special equipment items, including the first installation, shall be removed from the electric plant accounts only when the items are abandoned or retired from the system.

Meters, line-type transformers, oil circuit reclosers, sectionalizers, current and potential transformers, meter sockets, and other metering equipment listed in Account 370, Meters, as well as pole-type and underground voltage regulators in Account 368, Line Transformers, are considered to be special equipment items. Similarly, load control receivers (load control switches) recorded in Account 371, Installations on Customers' Premises, are considered to be items of special equipment. (See Interpretation No. 118.) Transformers, voltage regulators, metering equipment, and current and potential transformers for substations are not.

Special equipment items which are classified as nonusable shall be segregated in the warehouse and retired from service. The Summary of Special Equipment Costs shall be retitled Summary of Special Equipment Costs Retired and used for this purpose. A journal entry reflecting this information shall be prepared and posted to the books. Since loan funds for special equipment, including first installation costs, are approved for advance by RUS upon receipt of the borrower's written estimate of funds required, and not on the basis of an Inventory of Work Orders, it is improper to take a credit for any salvage involved in the retirement of special equipment on the Inventory of Work Orders.

120 Meter Sockets and Meters

When a utility furnishes meter sockets, ownership by the utility of the meter socket or base, as well as the meter itself, is established by virtue of them being furnished without cost to the consumer by the cooperative. While no agreement as to ownership between the cooperative and the property owner exists, cooperative ownership is implied by long standing practice and tradition in the electric utility industry.

121 Minimum—Maximum Voltmeters

A minimum—maximum voltmeter is used to record the minimum and maximum voltages at a specific line location over a period of time. It is normally installed on a pole in connection with a 1½ kVA transformer, a meter base and connecting wires, and other small items of materials. Meter bases are ordinarily set for these voltmeters throughout the system, and a lesser number of voltmeters are rotated among them periodically to obtain voltage readings. An average system may have one voltmeter to two installations, with a maximum of 20 or 25 voltmeters for the whole system.

Minimum—maximum voltmeters shall be recorded, through work orders, in Account 370, Meters, when installed. The cost of the transformers shall remain in Account 368, Line Transformers, with the cost of the meter bases remaining in Account 370, Meters. The miscellaneous material used in installing the transformer and the meter base shall be charged to Account 370, Meters.

Maintenance expense shall be charged to either Account 595, Maintenance of Line Transformers, or Account 597, Maintenance of Meters, as appropriate. Costs associated with reading the voltmeters shall be charged to Account 583, Overhead Line Expenses, and the cost of relocating or changing the complete installation or any part thereof, other than retirement of the meter base, shall be charged to Account 583, Overhead Line Expenses, or Account 586, Meter Expenses.

122 Retrofitting Demand Meters

A demand meter measures the amount of electricity used over a period of time in kilowatt-hours (kWh) and indicates the maximum kilowatts (kW) required at any one time by means of a pointer.

Electronic or solid state demand meters have a direct readout which reads kilowatt demand to two decimal places. The use of a direct readout demand meter may result in increased revenues as pointer readings tend to register lower than actual usages.

The process of retrofitting a demand meter replaces the pointer with a direct readout. The cost of such a replacement is usually expensed as a minor item of property; however, since the use of a direct readout results in a substantial betterment, the excess cost of the replacement over the estimated cost, at current prices, of replacing the pointer without the betterment is capitalized.

123 Transformer Conversions

The conversion of an overhead transformer to an underground transformer constitutes a betterment and shall, therefore, be capitalized.

124 Transclosures

Transclosures are enclosures or cabinets in which line transformers are mounted. The cost of transclosures that are purchased separately from the transformer shall be charged to Account 154, Plant Materials and Operating Supplies, when received, and capitalized, upon installation, to Account 368, Line Transformers, as a separate unit of property. If the case and the transformer are inseparable, the unit is considered a transformer and shall be capitalized upon purchase.

125 Retirement Units

Services

A retirement unit shall consist of a complete service rather than the individual wires comprising that service. If each separate wire of a service were treated as a retirement unit, the retirement unit would represent a comparatively small cost. Such a small unit of property would substantially increase the number of retirement work orders. The complete service shall, therefore, be considered a retirement unit.

Minor Items

When minor items of property are added separately from complete retirement units, the costs of these items shall be included in work orders, and by unitizing all costs of completed construction for a month, these minor items shall be spread to the retirement units of which they normally form a part. For example, to convert a two-phase line to a three-phase line requires the addition of a conductor, an insulator and a pole-top pin. A pole-top pin is typically capitalized as a component of the cost of the pole to which it is attached. Assuming this is the only work order for the month, the cost of this pin shall be charged to the conductor, so that its cost is included in the total cost of the project. In actual practice, however, this does not happen as it is normal to have a number of work orders for a given month, which include the setting of poles. In allocating the cost of all construction projects for the month, part of the cost of pole-top pins shall be allocated to poles even though the work orders on which they were capitalized did not include poles.

The retirement and replacement of isolated single retirement units cannot be charged to maintenance; a retirement and construction work order shall be used.

126 Establishment of Continuing Property Records

The costs of installing a system of continuing property records shall be charged to Account 930.2, Miscellaneous General Expenses, and may include:

1. Labor and expenses incurred in developing an inventory of property;
2. Labor and material costs incurred in connection with developing pole records including map preparation and pole cards; and
3. Labor and material costs (ledger sheets, etc.) incurred in connection with the installation of the record system.

127 Continuing Property Records for Buildings

When establishing continuing property records for a building where there is no detailed breakdown of contract costs, it is necessary to estimate the cost of the each component part. It should be noted that the establishment of continuing property records is not required for buildings; however, if CPRs are not maintained, all repairs including the replacement of major component parts shall be expensed in the period incurred.

128 Sale of Property

All proceeds deposited in the Construction Fund account from the sale of property, regardless of materiality, shall be reflected on the RUS Form 595, Financial Requirement and Expenditure Statement. Proceeds from the sale of property shall be reported on the Form 595, by budget purpose, as a reduction in total expenditures to date, column 5; and an increase in the cash balance, column 6.

Proceeds from the sale of property shall not be used to maintain an ''Employee Fund.'' A utility may, pursuant to board policy, use general funds for employee welfare equivalent in amount to proceeds received from the sale of scrap property. If general funds, in an amount equivalent to proceeds received from the sale of scrap property, are used for employee welfare, Account 926, Employee Pensions and Benefits, shall be charged.

129 Gain or Loss on the Sale of an Office Building

A gain on the sale of an office building shall be recorded in Account 421.1, Gain on the Disposition of Property, with a loss recorded in Account 421.2, Loss on the Disposition of Property. If the gain or loss will materially distort current year's net margins, such gain or loss is reportable as an extraordinary item in Account 434, Extraordinary Income, or Account 435, Extraordinary Deductions.

130 Salvage and Obsolete Material

The value of material salvaged from the retirement of units of property reduces the loss on the retirement and shall be so applied. The value assigned to salvage shall be credited to Account 108.8, Retirement Work-in-Progress, which results in reducing net charges to the provision for depreciation when the work order is completed and cleared.

If salvage is sold, any difference between the realized value and the estimated value of the salvaged material shall be charged or credited to the appropriate provision for depreciation.

Salvage resulting from maintenance where no retirement units are involved shall be debited to the materials and supplies account, and credited to the appropriate maintenance account.

Occasionally a utility will have a loss due to obsolescence of materials on hand. If the loss is due to obsolescence of new material, the loss shall be charged to Account 426.5, Other Deductions. If the loss is due to obsolescence of used material, the loss shall be charged to the appropriate subaccount of Account 108, Accumulated Provision for Depreciation.

131 Plant Acquisition Adjustments

Plant acquisition adjustments shall be amortized to the operating expense accounts. These adjustments are recorded in Account 114, Electric Plant Acquisition Adjustments, and amortized to Account 406, Amortization of Electric Plant Acquisition Adjustments, or Account 425, Miscellaneous Amortization, as required by the regulatory commission having jurisdiction. Accounts 406 and 425 shall be closed to operating margins.

132 General Plant

When the unit method of depreciation is used for general plant items, gains and losses on sales, trades or disposals of equipment shall be recorded as such. If the composite method of depreciation is used, gains or losses on the disposal of general plant items shall be recorded in the appropriate depreciation reserve account.

A truck which is used only for transporting power operated equipment mounted thereon shall be charged, together with the installed equipment, to Account 396, Power Operated Equipment. If the same type of truck is used for transporting materials and supplies, tools and work equipment, personnel, or other items, the cost of the truck shall be charged to Account 392, Transportation Equipment.

Depreciation and other expenses relating to power operated equipment shall be accumulated in a subaccount of Account 184, Clearing Accounts, and distributed monthly on an equitable basis to the accounts properly chargeable.

Depreciation expense on vehicles and other work equipment, furniture and office equipment, and other such plant used in the construction of utility plant, is a proper component of construction cost. To avoid a duplicate advance of funds, however, the amount of depreciation on such items that has previously been financed from loan funds shall be deducted from Inventories of Work Orders submitted to RUS. This amount shall be specifically identified, and shown either monthly or annually as a single item in column 9 on the RUS Form 219, Inventory of Work Orders.

133 Plant Abandonments and Disallowances of Plant Costs

In December 1986, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 90, Regulated Enterprises—Accounting for Abandonments (Statement No. 90) and Disallowances of Plant Costs. This section provides an overview of the requirements outlined in Statement No. 90 together with the specific accounts that shall be used to record a plant abandonment or a disallowance of plant costs.

Plant Abandonments

When an abandonment becomes probable, the cost of the abandoned asset shall be removed from Construction Work-in-Progress or Plant-in-Service, as applicable. Before making this transfer, however, a determination must be made as to whether recovery of the allowed cost is likely to be provided with a full return on the investment during the period from the time the abandonment becomes probable, to the time when recovery is completed, or with a partial or no return on the investment. This determination shall be made based upon the facts and circumstances of the specific abandonment, and past practices and current policies of regulatory jurisdiction.

If a full return on the investment is likely to be provided, any disallowance of all or part of the cost of abandoned plant that is both probable and reasonably estimated shall be recognized as a loss in the current year with the carrying basis of the asset reduced by an equal amount. The remaining cost of abandoned plant shall be recorded as a separate new asset.

If partial or no return on the investment is likely to be provided, any disallowance of abandoned plant costs that is both probable and reasonably estimated shall be recognized as a loss. The present value of the future revenues expected to be provided to recover the allowable cost of the abandoned plant and return on the investment, if any, shall be reported as a separate new asset. The discount rate used to compute the present value shall be the borrower's incremental borrowing rate, which is the rate that the borrower would have to pay to borrow an equivalent amount for a period equal to the expected recovery period. In determining the value of expected future revenues, the borrower shall consider the probable time period before the recovery is expected to begin and the probable time period over which recovery is expected to be provided.

The amount of the new asset shall be adjusted from time to time, as necessary, if new information indicates that the estimates used to record the new asset have changed. The carrying value of the new asset, however, shall not be adjusted for changes in the incremental borrowing rate. The amount of any adjustments shall be recorded as a gain or loss.

During the period between the date on which a new asset is recognized and the date on which recovery begins, the carrying amount shall be increased by accruing a carrying charge. The rate used to accrue the carrying charge shall be:

1. If a full return on the investment is likely, a rate equal to the allowed overall cost of capital in the jurisdiction in which recovery is expected to be provided shall be used.

2. If partial or no return is likely, the asset shall be amortized in a manner that will produce a constant return on the unamortized investment in the new asset equal to the rate at which the expected revenues were discounted.

Due to the nonprofit environment in which electric cooperatives operate, full recovery of interest expense on plant related long-term debt equates to full recovery of the rate of return for an investor-owned utility. Therefore, if a cooperative is permitted full recovery of the interest expense incurred on the long-term debt borrowed to finance construction of an abandoned plant, no discounting of the asset is required nor is accrual of the carrying charge permitted.

If, at the time the provisions of Statement No. 90 are first applied, the borrower elects to restate the financial statements, the financial statements for all periods presented shall be restated and the financial statements shall disclose the nature of the restatement and its effect on margins before extraordinary items, net margins, and patronage capital at the beginning of the earliest period presented. If the borrower elects not to restate the financial statements, the effect of applying Statement No. 90 shall be reported as a change in accounting principle and the financial statements shall disclose the nature of the change and the effect of applying Statement No. 90 on margins before extraordinary items and net margins.

The specific accounts that shall be used to record transactions involving plant abandonments are as follows:

1. In the year of the abandonment, the unrecoverable portion of the cost of abandoned plant included in construction work-in-progress shall be recognized as a loss by a charge to Account 426.5, Other Deductions, and a credit to Account 107, Construction Work-in-Progress.

2. The balance of the cost remaining in the construction work-in-progress account shall be credited to Account 107 and charged to Account 182.2, Unrecovered Plant and Regulatory Study Costs.

3. The difference between the charge to Account 182.2 and the present value of expected future revenues for recovery of the new asset, shall be recorded as a credit to Account 182.2 and a debit to Account 426.5. The credit to Account 182.2 shall be segregated from the amount charged to Account 182.2 by the use of a separate subaccount. Statement No. 90 does not require this segregation; however, it is necessary under the USoA to provide for the appropriate segregation of operating and nonoperating income.

4. During the waiting period for recovery of the new asset to begin, carrying charges shall be accrued by a debit toAccount 182.2 with a concurrent credit to Account 421, Miscellaneous Nonoperating Income. Debits to Account 182.2 shall be treated as reductions to the credit subaccount of Account 182.2.

5. The borrower shall amortize the amount debited to Account 182.2 by charges to operating income, consistent with the way the amortized amounts are recovered through rates. These charges to income shall be recorded in Account 407, Amortization of

Property Losses, Unrecovered Plant and Regulatory Study Costs.

6. As the recoverable amount recorded in Account 182.2 is recovered through rates, the borrower shall accrue income by charges to Account 182.2 and credits to Account 421, Miscellaneous Nonoperating Income. Accruals shall be computed by applying the same rate used to derive the present value of the asset established in Account 182.2, to the unamortized balance in that account. Accrued amounts charged to Account 182.2 shall be treated as reductions to the credit subaccount withinAccount 182.2.

Prior to implementing the accounting prescribed above, the borrower shall submit the details of each plant abandonment to RUS for approval.

Disallowances of Costs of Recently Completed Plant

When it becomes probable that a portion of the cost of recently completed plant will be disallowed for rate making purposes and a reasonable estimate of the amount of the disallowance can be made, the estimated amount of the probable disallowance shall be deducted from the reported cost of the plant and recognized as a loss. If a portion of the costs is explicitly, but indirectly disallowed, the equivalent amount of the cost shall be deducted from the reported cost of the plant and recognized as a loss.The specific accounts that shall be used to record transactions involving the disallowance of plant costs are as follows:

1. Estimated disallowed plant costs which the borrower records as a credit to Account 101, Electric Plant-in-Service, shall be charged to Account 426.5, Other Deductions.

2. If the loss qualifies as an extraordinary item under the criteria set forth in General Instruction No. 7 of the USoA, the borrower shall record the loss in Account 435, Extraordinary Deductions. To be considered extraordinary, an item shall be more than five percent of income computed before extraordinary items. If a borrower believes that a loss of less than five percent should be treated as an extraordinary item; the borrower shall, with commission approval, record the loss in Account 435 and report the loss as an extraordinary item. If the borrower is not subject to state commission jurisdiction, RUS approval is required.

134 Utility Plant Phase-in Plans

In August 1987, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 92, Regulated Enterprises—Accounting for Phase-in Plans (Statement No. 92). This section provides an overview of the requirements outlined in Statement No. 92.

The term phase-in plan is used to refer to any method of recognition of allowable costs in rates that meets all of the following criteria:

1. The method was adopted by the regulator in connection with a major, newly completed plant of the regulated enterprise or one of its suppliers or a major plant scheduled for completion in the near future.

2. The method defers the rates intended to recover allowable costs beyond the period in which those allowable costs would be charged to expense under generally accepted accounting principles applicable to enterprises in general.

3. The method defers the rates intended to recover allowable costs beyond the period in which those rates would have been ordered under the rate-making methods routinely used prior to 1982 by that regulator for similar allowable costs of that regulated enterprise.

If a phase-in plan is ordered by a regulator in connection with a plant on which no substantial physical construction had been performed before January 1, 1988, none of the allowable costs that are deferred for future recovery by the regulator under the plan for rate-making purposes, shall be capitalized for general-purpose financial reporting purposes (financial reporting).

If a phase-in plan is ordered by a regulator in connection with a plant completed before January 1, 1988, or a plant on which substantial physical construction had been performed before January 1, 1988, the criteria specified below shall be applied to that plan. If the phase-in plan meets all of those criteria, all allowable costs that are deferred for future recovery by the regulator under the plan shall be capitalized for financial reporting purposes as a separate asset (a deferred charge). If any one of those criteria is not met, none of the allowable costs that are deferred for future recovery by the regulator under the plan shall be capitalized for financial reporting. The criteria for determining whether capitalization is appropriate are:

1. The allowable costs in question are deferred pursuant to a formal plan that has been agreed to by the regulator;

2. The plan specifies the timing of recovery of all allowable costs that will be deferred under the plan;

3. All allowable costs deferred under the plan are scheduled for recovery within 10 years of the date when the deferral began; and

4. The percentage increase in rates scheduled under the plan for each future year is no greater than the percentage increase in rates scheduled under the plan for each immediately preceding year. That is, the scheduled percentage increase in year two is no greater than the percentage increase granted in year one, the scheduled percentage increase in year three is no greater than the percentage increase in year two, etc.

By definition, a phase-in plan approved prior to 1982 that contains provisions contrary to those detailed above is not subject to the provisions of Statement No. 92. This exemption, however, only relates to a specific utility and a specific regulator. For example, a utility cannot use a phase-in plan approved by its regulator for a different utility as justification for its phase-in plan exceeding the 10-year limit imposed by Statement No. 92.

A phase-in plan is a method of rate making intended to moderate a sudden increase in rates while providing the regulated enterprise with recovery of its investment and a return on that investment during the recovery period. A disallowance is a rate-making action that prevents the regulated enterprise from recovering either some amount of its investment or some amount of return on its investment. Statement No. 90 specifies the accounting for disallowances of plant costs (see item 133 of this regulation). If a method of rate making that meets the criteria for a phase-in plan includes an indirect disallowance of plant costs, that disallowance shall be accounted for in accordance with Statement No. 90. Cumulative amounts capitalized under phase-in plans shall be reported as a separate asset in the balance sheet. The net amount capitalized in each period or the net amount of previously capitalized allowable costs recovered during each period shall be reported as a separate item of other income or expense in the income statement. Allowable costs capitalized shall not be reported as reductions of other expenses.

The terms of any phase-in plan in effect during the year or ordered for future years shall be disclosed in the financial statements. Statement No. 92 does not permit capitalization for financial reporting of allowable costs deferred for future recovery by the regulator pursuant to a phase-in plan that does not meet the criteria or a phase-in plan related to plant on which substantial physical construction was not completed before January 1, 1988. Nevertheless, the financial statements shall include disclosures of the net amount deferred at the balance sheet date for rate-making purposes, and the net change in deferrals for rate-making purposes during the year for those plans.

If the provisions of Statement No. 92 are applied retroactively, the financial statements of all periods presented shall be restated. In addition, the restated financial statements shall, in the year that Statement No. 92 is first applied, disclose the nature of any restatement and its effect on margins before extraordinary items, net margins, and on patronage capital at the beginning of the earliest period presented. If the financial statements for prior years are not restated, the effects of applying Statement No. 92 to existing phase-in plans shall be reported as a change in accounting principle and the financial statements shall disclose the effect of adopting Statement No. 92 on margins before extraordinary items and net margins.

The application of Statement No. 92 to an existing phase-in plan shall be delayed if both of the following conditions are met:

1. The enterprise has filed a rate application to have the plan amended to meet the criteria of Statement No. 92 or intends to do so as soon as practicable; and

2. It is reasonably possible that the regulator will change the terms of the phase-in plan so that it will meet the criteria of Statement No. 92.

If the above conditions are met, the provisions of Statement No. 92 shall be applied to the existing phase-in plan on the earlier of the date when one of the conditions ceases to be met or the date when the final rate order is received, amending or refusing to amend the phase-in plan. However, if the enterprise delays filing its application for the amendment or the regulator does not process the application in the normal period of time, the application of Statement No. 92 shall not be further delayed.

In applying the criteria of Statement No. 92 to a plan that was in existence prior to the first fiscal year beginning after December 15, 1987, and that was revised to meet that criteria, the 10-year criterion and the requirement concerning the percentage increase shall be measured from the date of the amendment rather than from the date of the first scheduled deferrals under the original plan. All phase-in plans must receive RUS approval prior to implementation.

135 Accounting for Removal or Relocation of Electric Facilities Resulting from the Action of Others

Under arrangements with another party, a borrower agrees, or is obliged, to remove, relocate, rearrange, or otherwise make changes in utility property, other than for the purpose of rendering utility service to the other party, for which the utility is reimbursed for all or a portion of the costs incurred.

Plant Accounting

The relocation of the line shall be accounted for as follows:

1. If all of the assemblies in the line are retired or completely removed and later reinstalled or if the line is constructed in a new location before the old line is removed, construction and retirement work orders shall be prepared except for the costs relating to special equipment items (transformers, oil circuit reclosers, etc.) which shall be charged to operations expense.

2. If a line is moved in its entirety to a new location except for isolated retirement units (such as at the end of the line) or poles not suitable for resetting, the cost of moving the portion of line that is moved intact shall be charged to maintenance expense while the cost related to the change in isolated retirement units or the replacement of poles not suitable for resetting shall be accounted for through use of construction and retirement work orders.

3. If a line is moved intact without any change in assemblies, the cost shall be charged to maintenance expense.

Reimbursement

If the borrower receives reimbursement for the costs related to the relocation of the line, the reimbursement shall be accounted for by crediting operation and maintenance expenses to the extent of actual expenses occasioned by the plant changes and crediting the remainder to the accumulated provision for depreciation, unless contractual terms definitely characterize residual or specific amounts as applicable to the cost of replacement. In the latter event, appropriate credits shall be entered in the plant accounts.

Reimbursement received from a telephone company for adding a pole or replacing a present pole with a taller pole under joint use contracts falls within this latter category. In this instance, appropriate credits are charged against the plant accounts.

Financing

The total reimbursement, less any portion for operations and maintenance costs, shall be entered in the ‘‘Contributions in Aid of Construction’’ section at the bottom of the Construction Work Order. When the Inventory of Work Orders (RUS Form 219) is prepared, enter only enough of the contribution in column 9 to reduce to zero the amount in column 10, ''Loan Funds Subject to Advance by RUS.'' This entry is made although none of the reimbursement received is recorded in the accounting records as a contribution in aid of construction.

136 Storm Damage

As a result of recent hurricane, flood, and ice storm damage, the Rural Utilities Service (RUS) has received several inquiries concerning the proper accounting for storm damage costs and the associated funds received from the Federal Emergency Management Administration (FEMA).

Storm damage costs should be accounted for under the work order procedure. Units of property destroyed or otherwise removed from service must be reflected on retirement work orders and units of property installed must be shown on construction work orders. To ensure that the accounting for construction and retirement costs is as accurate as possible, an effort should be made to accurately accumulate material, labor, and overhead costs. Even when extreme care has been exercised, however, it may still be necessary to use estimates to develop the appropriate cost figures.

When a storm occurs, a utility typically incurs a large retirement loss, all or a part of which should be charged to the accumulated provision for depreciation. Storm damage costs over and above construction and retirement costs represent maintenance expense. Maintenance costs include the costs of resagging lines, straightening poles, and replacing minor items of property. When extensive damage has occurred, the need to restore the property to an operating condition without delay usually results in excessive costs being incurred. Standard property unit costs may be used as a guide in determining the amount to be capitalized. It should be noted, however, that when standard property unit costs are used, all excess costs are charged to maintenance expense.

Because of the storm's destruction, property is retired prematurely and as a result, extraordinary retirement losses occur. When such extraordinary losses occur, they should be recorded in the year in which the losses are incurred. If the recording of such losses will materially distort the income statement, such losses may be charged to Account 435, Extraordinary Deductions. These costs may be deferred and amortized to future periods only if the provisions of Statement of Financial Accounting Standards No. 71, Accounting for the Effects of Certain Types of Regulation (Statement No. 71), are applied. Under the provisions of Statement No. 71, a utility may defer certain costs, provided such costs are included in the utility's rate base and recovered through future rates. If an RUS borrower elects to apply the provisions of Statement No. 71, RUS approval is required. To obtain RUS approval, a borrower must submit:

a. A detailed description of the plan including the nature of the expense item, the amount of the deferral, the specific time period for rate recovery, and justifying support for the time period selected;

b. The accounting journal entries being used by the cooperative to record the expense deferral and amortization of the deferred costs;

c. A copy of the state Commission order authorizing recovery of the deferred costs through future rates, or in the absence of commission jurisdiction, a resolution from the cooperative's board of directors authorizing such recovery; and

d. A statement from the borrower's certified public accountant (CPA) or CPA firm indicating that the deferral and amortization of these costs is in accordance with generally accepted accounting principles.

To assist in the restoration of the damaged facilities, the Federal government often provides assistance through FEMA. Under current FEMA procedures, FEMA provides funds for the restoration of facilities based upon the cost estimates submitted by the entity requesting assistance. If the FEMA grant is for less than 100 percent of the cost estimates, FEMA does not specify which costs are to be reimbursed. When the funds are received, therefore, they should be accounted for by crediting construction, retirement, maintenance expense, and administrative expense in direct proportion to the total costs incurred. For example, if total storm damage costs are $1,000,000 with $450,000 incurred for maintenance, $300,000 for retirement, $200,000 for construction, and $50,000 for administrative costs, the FEMA reimbursement should be accounted for by applying 45 percent of the funds received as a credit to maintenance expense, 30 percent as a credit to retirement costs, 20 percent as a credit to construction, and 5 percent as a credit to administrative and general costs.

ACCOUNTING JOURNAL ENTRIES

Dr. 108.8X, Retirement Work in Progress—Storm Damage	$1,015.17	
Cr. 107.4, Construction Work in Progress—Storm Damage		$1,015.17

To transfer the removal costs recorded in Column 11 of Retirement Work Order #4401X to Account 108.8X.

Dr. 107.4, Construction Work in Progress—Storm Damage	$4,141.55	
Cr. 108.8X, Retirement Work in Progress—Storm Damage		$4,141.55

To remove material salvaged in the __________________ rebuild from Account 107.4. The original entry debited Account 154, Plant Materials and Operating Supplies, and credited Account 107.4. (See Column 12 of Retirement Work Order #4401X.)

Dr. 108.8X, Retirement Work in Progress—Storm Damage	$312,230.41	
Cr. 364, Poles Towers and Fixtures		$133,377.55
Cr. 365, Overhead Conductors and Devices		59,683.08
Cr. 368, Lines Transformers		19,704.60
Cr. 369, Services		97,651.23
Cr. 373, Street Lighting and Signal Systems		1,813.95

To remove the original cost of property destroyed and retired from the classified plant accounts. This retirement is recorded, in detail, on Retirement Work Order #4401X. It is understood that this retirement covers all distribution property retired or destroyed in the __________________ area exclusive of substations and special equipment items (meters, meter sockets, current and potential transformers, transformers, voltage regulators, oil circuit reclosers (OCR), and sectionalizers).

Dr. 108.6, Accumulated Provision for Depreciation of Distribution Plant	$309,104.03	
Cr. 108.8X, Retirement Work in Progress—Storm Damage		$309,104.03

To record the net loss due to the retirement of distribution lines in the __________________ area. (See Retirement Work Order #4401X.)

Dr. 364, Poles, Towers and Fixtures	$99,075.40	
Dr. 365, Overhead Conductors and Devices	104,142.22	
Dr. 368, Line Transformers	25,036.07	
Dr. 369, Services	28,865.08	
Dr. 373, Street Lighting and Signal Systems	2,101.60	
Cr. 107.4, Construction Work in Progress—Storm Damage		$259,220.37

To record, in the proper classified plant accounts, Construction Work Order #4401 covering the __________________ rebuild.

This entry includes:

Material Issued	$150,336.49	
Less: Materials Returned	15,631.39	
Net Material Used	134,705.10	
Labor and overhead estimated by using standard record unit costs	124,515.27	
Total	259,220.37	

Dr. 108.8X, Retirement Work in Progress—Storm Damage	2,384.00	
Cr. 107.4, Construction Work in Progress—Storm Damage		$2,384.00

To transfer the removal costs associated with the retirement of old transmission lines ($1,966) and substations ($418) to Account 107.4. This cost is shown in Column 11 of Retirement Work Order #4400X).

Dr. 107.4, Construction Work in Progress—Storm Damage	$1,939.74	
Cr. 108.8X, Retirement Work in Progress—Storm Damage		$1,939.74

To remove material salvaged from transmission lines ($1,545.74) and substations ($394.00) from Account 107.4. The original entry debited Account 154 and credited Account 107.4. (See Column 12 of Retirement Work Order #4400X.)

Dr. 108.8X, Retirement Work in Progress—Storm Damage	$162,172.06	
Cr. 355, Poles and Fixtures		$47,738.45
Cr. 356, Overhead Conductors & Devices		80,304.11
Cr. 362, Station Equipment		34,129.50

To remove the original cost of transmission lines and substations destroyed and retired from the classified plant accounts. (See Retirement Work Order #4400X.) (New substations were built and separately accounted for on Work Order #4406.)

Dr. 108.5, Accumulated Provision for Depreciation of Transmission Plant	$128,462.82	
Dr. 108.6, Accumulated Provision for Depreciation of Distribution Plant	34,153.50	
Cr. 108.8X, Retirement Work in Progress—Storm Damage		$162,616.32

To record the net loss due to the retirement of transmission lines ($128,462.82) and substations ($34,153.50). (See Retirement Work Order #4400X):

	Substations	Transmission plant
Original Cost	$34,129.50	$128,042.56
Add: Cost of Removal	418.00	1,966.00
	34,547.50	130,008.56
Less: Material Salvaged	394.00	1,545.74
Total	34,153.50	128,462.82

Dr. 355, Poles and Fixtures	$161,784.05	
Dr. 356, Overhead Conductors and Devices	124,704.77	
Cr. 107.4, Construction Work in Progress—Storm Damage		$286,488.82

To record, in the proper classified plant accounts, the costs of a 69 kV transmission line (________________) as detailed in Work Order #4400. This work order includes construction costs as follows:

Material Used (Net)	$171,665.62
Labor and overhead estimated by using standard record unit costs	114,823.20
Total	286,488.82

Dr. 107.4, Construction Work in Progress—Storm Damage	$329.40	
Cr. 108.8X, Retirement Work in Progress—Storm Damage		$329.40

To correct the journal entry for cash received from the sale of scrapped meters and transformers. The original entry credited Account 107.4 at the time of receipt.

Transformers	$318.00
Meters	11.40
Net Materials Used	329.40

Dr. 108.8X, Retirement Work in Progress—Storm Damage		$137,671.22
Cr. 365, Overhead Conductors and Devices		$4,557.00
Cr. 368, Line Transformers		112,815.22
Cr. 370, Meters		20,299.00

To remove the cost of meters, transformers, and OCRs lost or destroyed from the primary plant accounts. (See Retirement Work Order #4402X.)

737 Transformers	$112,815.22	
31 OCRs	4,557.00	
1,532 Meters	20,299.00	
Total	137,671.22	

Dr. 108.6, Accumulated Provision for Depreciation of Distribution Plant	$137,341.82	
Cr. 108.8X, Retirement Work in Progress	....	$137,341.82

To record the net loss due to the retirement of meters, transformers, and OCRs. (See Retirement Work Order #4402X.)

Original Cost	$137,671.22	
Salvaged Realized	329.40	
Total	137,341.82	

Dr. 186, Miscellaneous Deferred Debits	$1,319.85	
Cr. 107.4, Construction Work in Progress—Storm Damage	....	$1,319.85

To record the engineering costs associated with future construction work in the ____________________ area.

Dr. 593, Maintenance of Overhead Lines	$607.24	
Dr. 595, Maintenance of Line Transformers	19,365.86	
Dr. 597, Maintenance of Meters	6,595.56	
Cr. 107.4, Construction Work in Progress—Storm Damage	....	$26,568.66

To charge the costs of repairing damaged meters, transformers, voltage regulators, and OCRs to the appropriate expense accounts. Repair costs were originally charged to Account 107.4.

	593	595	597
Meters			$6,595.56
Transformers		$18,869.95	
Voltage Regulators		495.91	
Oil Circuit Reclosers	$607.24		
Total	607.24	19,365.86	6,595.56

Dr. 920, Administrative and General Salaries	$32,000.00	
Dr. 921, Office Supplies and Expenses	4,421.69	
Cr. 107.4, Construction Work in Progress—Storm Damage	....	$36,421.69

To charge the administrative costs incurred to obtain the FEMA grant to the appropriate expense accounts. Administrative costs were originally charged to Account 107.4.

Salaries	$32,000.00	
Office Supplies	4,421.69	
Total	$36,421.69	

Dr. 571, Maintenance of Overhead Lines	$3,675.60	
Dr. 593, Maintenance of Overhead Lines	33,080.40	
Cr. 107.4, Construction Work in Progress Storm Damage	....	$36,756.00

To allocate expenses remaining in Account 107.4 to distribution and transmission maintenance expense. It was estimated that only 10 percent is applicable to transmission.

Dr. 426.5, Other Deductions	$275,000.00	
Dr. 435, Extraordinary Deductions		
Dr. 182.1, Extraordinary Property Losses		
Cr. 108.5, Accumulated Provision for Depreciation of Transmission Plant	....	$35,000.00
Cr. 108.6, Accumulated Provision for Depreciation of Distribution Plant	....	240,000.00

To restore the accumulated provisions for depreciation to their appropriate levels based upon a study of plant currently in service.

NOTE: Account 426.5, Other Deductions, should be used to record the retirement loss as a current period expense. Account 435, Extraordinary Deductions, may be used when the loss will materially distort the income statement. Account 182.1, Extraordinary Property Losses, should be used when such costs are being deferred under the provisions of Statement No. 71. Costs recorded in this account should be amortized to Account 407, Amortization of Property Losses, as the costs are recovered through rates.

Dr. 131.1, Cash—General	$1,000,000.00	
Cr. 253, Other Deferred Credits		$1,000,000.00

To record the receipt of funds from the Federal Emergency Management Administration (FEMA).

Dr. 253, Other Deferred Credits	$1,000,000.00	
Cr. 108.5, Accumulated Provision for Depreciation of Transmission Plant		$74,205.00
Cr. 108.6, Accumulated Provision for Depreciation of Distribution Plant		191,575.00
Cr. 186, Miscellaneous Deferred Debits		872.00
Cr. 355, Poles and Fixtures		129,056.00
Cr. 356, Overhead Conductors and Devices		99,408.00
Cr. 364, Poles, Towers and Fixtures		78,916.00
Cr. 365, Overhead Conductors and Devices		82,840.00
Cr. 368, Line Transformers		20,056.00
Cr. 369, Services		23,108.00
Cr. 373, Street Lighting and Signal Systems		1,744.00
Cr. 426.5, Other Deductions		219,220.00
Cr. 571, Maintenance of Overhead Lines		2,900.00
Cr. 593, Maintenance of Overhead Lines		26,600.00
Cr. 595, Maintenance of Line Transformers		15,300.00
Cr. 597, Maintenance of Meters		5,200.00
Cr. 920, Administrative and General Salaries		25,491.00
Cr. 921, Office Supplies and Expenses		3,509.00

To allocate FEMA funds to the proper accounts.

Summary of Costs

Maintenance:	
Account 571, Maintenance of Overhead Lines	$3,675.60
Account 593, Maintenance of Overhead Lines	33,687.24
Account 595, Maintenance of Line Transformers	19,365.86
Account 597, Maintenance of Meters	6,595.56
Total Maintenance Costs	63,324.26
Retirement Loss:	
Account 108.5, Accumulated Provision for Depreciation of Transmission Plant	93,462.82
Account 108.6, Accumulated Provision for Depreciation of Distribution Plant	240,599.35
Account 426.5, Other Deductions	275,000.00
Total Retirement Loss	609,062.17
Construction:	
Account 186, Miscellaneous Deferred Debits	1,319.85
Account 355, Poles and Fixtures	161,784.05
Account 356, Overhead Conductors and Devices	124,704.77
Account 364, Poles, Towers and Fixtures	99,075.40
Account 365, Overhead Conductor and Devices	104,142.22
Account 368, Line Transformers	25,036.07
Account 369, Services	28,865.08
Account 373, Street Lighting and Signal Systems	2,101.60
Total Construction Cost	547,029.04
Administrative:	

Account 920, Administrative and General Salaries	$32,000.00
Account 921, Office Supplies and Expenses	4,421.69
Total Administrative Cost	36,421.69
Maintenance	63,324.26
Retirement Loss	609,062.17
Construction	547,029.04
Administrative	36,421.69
Total Costs	1,255,837.16

Distribution of FEMA Funds

Maintenance: 63,324.26÷1,255,837.16=.0504=5.0%
Retirement: 609,062.17÷1,255,837.16=.4850=48.5%
Construction: 547,029.04÷1,255,837.16=.4356=43.6%
Administrative: 36,421.69÷1,255,837.16=.0290=2.9%

Maintenance: $1,000,000.00×5.0%=	$50,000.00
Retirement: $1,000,000.00×48.5%=	485,000.00
Construction: $1,000,000.00×43.6%=	436,000.00
Administrative: $1,000,000.00×2.9%=	29,000.00
Total	1,000,000.00

Distribution of FEMA Funds—Maintenance

Account 571: 3,675.60÷63,324.26=.0580=5.8%
Account 593: 33,687.24÷63,324.26=.5320=53.2%
Account 595: 19,365.86÷63,324.26=.3058=30.6%
Account 597: 6,595.56÷63,324.26=.1041=10.4%

Account 571: $50,000.00×5.8%=	$2,900.00
Account 593: $50,000.00×53.2%=	26,600.00
Account 595: $50,000.00×30.6%=	15,300.00
Account 597: $50,000.00×10.4%=	5,200.00
Total	50,000.00

Distribution of FEMA Funds—Retirement Loss

Account 108.5: 93,462.82÷609,062.17=.1535=15.3%
Account 108.6: 240,599.35÷609,062.17=.3950=39.5%
Account 426.5: 275,000.00÷609,062.17=.4515=45.2%

Account 108.5: $485,000.00×15.3%=	$74,205.00
Account 108.6: $485,000.00×39.5%=	191,575.00
Account 426.5: $485,000.00×45.2%=	219,220.00
Total	485,000.00

Distribution of FEMA Funds—Construction

Account 186: 1,319.85÷547,029.04=.0024=.2%
Account 355: 161,784.05÷547,029.04=.2958=29.6%
Account 356: 124,704.77÷547,029.04=.2280=22.8%
Account 364: 99,075.40÷547,029.04=.1811=18.1%
Account 365: 104,142.22÷547,029.04=.1904=19.0%
Account 368: 25,036.07÷547,029.04=.0457=4.6%
Account 369: 28,865.08÷547,029.04=.0528=5.3%
Account 373: 2,101.67÷547,029.04=.0038=.4%

Account 186: $436,000.00×.2%=	$872.00
Account 355: $436,000.00×29.6%=	129,056.00
Account 356: $436,000.00×22.8%=	99,408.00
Account 364: $436,000.00×18.1%=	78,916.00
Account 365: $436,000.00×19.0%=	82,840.00
Account 368: $436,000.00×4.6%=	20,056.00
Account 369: $436,000.00×5.3%=	23,108.00

Account 373: $436,000.00×.4%=	1,744.00
Total	436,000.00

Distribution of FEMA Funds—Administrative

Account 920: 32,000.00÷36,421.69=.8786=87.9%
Account 921: 4,421.69÷36,421.69=.1213=12.1%

Account 920: $29,000.00×87.9%=	$25,491.00
Account 921: $29,000.00×12.1%=	3,509.00
Total	29,000.00

201 Supplemental Financing

Many borrowers secure additional financing from sources other than RUS. CFC was established to provide a source of supplemental financing. Although the accounting provided in this section refers to CFC, it is applicable to other sources of supplemental financing as well.

1. *Membership Fees*

When a membership fee is paid to CFC, the payment shall be recorded as a debit to Account 123.23, Other Investments in Associated Organizations.

2. *Subscriptions*

The subscription agreement to purchase Capital Term Certificates (CTCs) is a binding obligation to pay an initial subscription in equal annual payments over the first three years and an additional annual subscription payable in the fourth through fifteenth years.

The annual subscriptions to CFC for the fourth through fifteenth years is 2.0 percent of total operating revenues after deducting the cost of power. Using the best data available, each borrower shall estimate the amount of CTCs that are required to be purchased. Estimates are not expected to be precise and adjustments shall be made when future projections indicate a change is needed. When the agreement to purchase CTCs is made, an entry shall be recorded debiting Account 123.21, Subscriptions to Capital Term Certificates—Supplemental Financing, and crediting Account 224.11, Other Long-Term Debit—Subscriptions. When the CTCs are actually purchased, the following entries shall be recorded:

Dr. 224.11, Other Long-Term Debt—Subscriptions
Cr. 131.1, Cash—General
Dr. 123.22, Investments in Capital Term Certificates—Supplemental Financing
Cr. 123.21, Subscriptions to Capital Term Certificates—Supplemental Financing

3. *Interest Receipts*

Interest accrues monthly to the holder of CTCs at a rate in accordance with the terms of the CFC Invitation to Subscribe. The accrual of interest and the receipt of interest proceeds shall be recorded as follows:

Dr. 171, Interest and Dividends Receivable
Cr. 419, Interest and Dividend Income
To record the monthly accrual of interest.
Dr. 131.1, Cash—General
Cr. 171, Interest and Dividends Receivable
To record the receipt of interest proceeds from the investment in CTCs.

NOTE: Any amounts received in excess of the previous accruals shall be credited to Account 419.

Interest penalties may be charged by CFC for late payments on any subscription from the date that the payment was due to the date that the payment was actually received. Such charges shall be expensed to Account 431, Other Interest Expense.

4. *Notes*

If a note is due more than one year after the date of the note, the appropriate subaccount of Account 224, Other Long-Term Debt, shall be credited. If the note is due less than one year from the date of the note, Account 231, Notes Payable, shall be credited.

When a loan from CFC has been consummated and a note is executed, Account 224.13, Supplemental Financing Notes Executed—Debit, shall be debited; and Account 224.12, Other Long-Term Debt—Supplemental Financing, credited. When a loan from another source has been consummated, Account 224.15, Notes Executed—Other—Debit, shall be debited; and Account 224.14, Other Long-Term Debt—Miscellaneous, credited.

5. *Loan Proceeds*

Cash proceeds from unsecured short-term loans shall be deposited into the General Fund Account. Cash proceeds from all secured loans shall be deposited into the Construction Fund Trustee Account.

From two to seven percent, depending upon the class of borrower and its debt-equity ratio, of each CFC loan is applied to the purchase of Capital Term Certificates. At the time of a borrower's first requisition under the CFC loan, the following entry shall be recorded:

Dr. 131.2, Cash—Construction Fund—Trustee
Dr. 123.22, Investments in Capital Term Certificates—Supplemental Financing
 Cr. 224.13, Supplemental Financing Notes Executed—Debit
To record the requisition of funds from CFC.

6. *Capital Credits*

As a result of borrowing from CFC or other lenders organized on a cooperative basis, a borrower may receive capital credit allocations. These allocations are usually based upon the borrower's participation in the lending program with participation measured by the amount of interest expense and conversion costs incurred.

To account for patronage capital allocations from cooperative lenders, the following journal entries shall be recorded:

Dr. 123.1, Patronage Capital from Associated Cooperatives
 Cr. 424, Other Capital Credits and Patronage Capital Allocations
To record the allocation of capital credits from a cooperative lender.

NOTE: If any portion of the interest expense was capitalized as a component of construction cost, a similar portion of the capital credit allocation shall be credited to construction rather than to Account 424. The portion credited to construction shall be determined by applying the percentage of interest expense charged to construction for that particular lender to the interest expense incurred for that lender.

Dr. 131.1, Cash—General
 Cr. 123.1, Patronage Capital from Associated Cooperatives
To record the cash receipt of patronage capital credits from cooperative lenders.

301 Forfeited Customers' Deposits

Customers may be required to make deposits to guarantee payment of amounts billed for electric service. When a customer discontinues service, the customer's deposit shall first be applied to unpaid energy bills, with the balance remitted by check to the customer. If the check is returned, it shall be voided and the original entry that was made when the check was issued shall be reversed.

Unclaimed balances of customer deposits shall remain in Account 235, Customer Deposits, until the legal liability of the cooperative to make such a refund has elapsed. When there is no further legal liability to refund the deposit and if it does not escheat to the state, it shall be transferred to Account 144, Accumulated Provision for Uncollectible Customer Accounts—Credit, retaining full information of all particulars.

401 Computer Software Costs

Computer software consists of programs and routines (sets of computer instructions) which direct the operation of the computer. Software may refer to generalized routines useful in computer operations or to programs for specific applications such as payroll.

The distinction between generalized software and application software is important. Generalized software provides operating support for individual applications. This would include programs for such tasks as making printouts of machine-readable records, sorting records, organizing and maintaining files, translating programs written in a symbolic language into machine-language instructions, and scheduling jobs through the computer. These programs are generally furnished by the manufacturer.

Application software consists of a set of instructions for performing a particular data processing task. Application programs are generally written by the user installation, but are frequently obtained as prewritten packages from software vendors. Application software includes programs such as payroll, billing, general ledger, as well as engineering or managerial applications.

Costs incurred with the purchase or development of computer software shall be accounted for as follows:

1. Capitalize in a subaccount of Account 391, Office Furniture and Equipment, all costs for generalized software. Depreciate the cost over the service life (or remaining life) of the main hardware (i.e., containing central processor). If the purchase invoice does not break out or assign a cost to the ‘‘generalized software,’’ it is appropriate to include the full amount in hardware costs. Capitalize in a separate subaccount of Account 391, all costs for applications software determined to have a service life of over one year. Depreciate the cost over the estimated useful service life of the program. This depreciation period shall not exceed five (5) years. RUS realizes, however, that there may be circumstances that justify a useful life longer than 5 years. When this is the case and it is management's intent to utilize these programs over an extended period, written justification shall be submitted to RUS for approval.

2. Expense in Account 921, Office Supplies and Expenses, in the period incurred, all costs associated with the maintenance, updating, and conversion of files or revision of all software, and all costs for software with a useful life of less than 1 year. Also expense in Account 921, the unamortized cost of all software determined, during the year, to be no longer used by or useful to the cooperative. Such costs that are clearly applicable to any category of operating expenses other than the administrative and general category, however, shall be included in the appropriate account in such category. In accordance with the USoA, no portion of such costs shall be capitalized to construction or retirement activities.

In determining the total cost of purchased or internally developed software, the following items shall be included:

a. Costs incurred for feasibility studies if they result in the purchase or development of software;

b. All costs related to the actual purchase or development of the software. These costs must be specifically identifiable with the software and properly supported by time cards, invoices, or other documents; and

c. All costs incurred in ‘‘testing and debugging’’ the software.

Computer software costs are properly chargeable to Account 107, Construction Work in Progress, provided that the following criteria are met:

1. The computer program is specifically dedicated to performing a construction related activity, and

2. The cost of the software is itemized separate and apart from other hardware and software costs.

The cost of software programs meeting the above requirements and having an estimated useful service life in excess of 1 year shall be recorded in Account 186, Miscellaneous Deferred Debits, and amortized to Account 107, Construction Work in Progress, over the estimated service life of the program not to exceed 5 years.

All costs related to training personnel in the use of software shall be expensed as incurred.

The accounting in this section is not intended to apply to immaterial amounts. When it is deemed that the costs of the recordkeeping necessary to amortize these costs outweigh the benefits to the members, software costs shall be expensed in the year incurred.

For computer costs relating to load control equipment, refer to Item 118 of this section.

402 Legal Expenses

Utilities may incur legal expenses which pertain to construction activities, loan activities, or general services. The proper accounting treatment for legal expenses is as follows:

1. Legal fees incurred in connection with a construction project, including the court costs directly related thereto, which can be identified and supported as such, shall be capitalized in Account 107, Construction Work-in-Progress, as a cost of construction.

2. Legal fees specifically identified and properly supported as resulting from activities designed to obtain long-term debt, shall be deferred in Account 181, Unamortized Debt Expense.

3. Legal fees for all other services and fees which cannot be properly identified will require expensing to either Account 417.1, Expenses of Nonutility

Operations, or Account 923, Outside Services Employed, as appropriate.

To properly support the capitalization or deferral of legal fees, the attorney shall provide an itemization of services performed and the corresponding costs. Only those costs specifically identified by the attorney as being related to construction or loan activities shall be capitalized or deferred as described above.

403 Leases

Lease transactions shall be accounted for as either a capital lease or an operating lease depending upon whether or not the lease meets the criteria for classification as a capital lease. The definitions for capital and operating leases and the criteria used to determine which method shall be used are as follows:

Definitions

1. *Capital Lease:* A lease that transfers substantially all of the benefits and risks inherent in the ownership of the property to the lessee, who accounts for the lease as an acquisition of an asset and the incurrence of a liability.

2. *Operating Lease:* An operating lease is a simple rental agreement which does not meet the criteria for a capital lease. Under the terms of an operating lease, the lessee records the rental payments due over the term of the lease as rent expense.

Criteria

A lease agreement shall be classified as a capital lease if one or more of the following criteria is met:

1. Ownership of the property is transferred to the lessee by the end of the lease term;

2. The lease contains a bargain purchase option;

3. The lease term is equal to 75 percent or more of the estimated useful life of the leased property; or

4. The present value of the lease payments at the inception of the lease equals or exceeds 90 percent of the fair market value of the leased property.

A lease agreement qualifying as a capital lease shall be recorded in either Account 101.1, Property Under Capital Leases;Account 120.6, Nuclear Fuel Under Capital Leases; or Account 121, Nonutility Property, as appropriate, at the present value (at the beginning of the lease term) of the minimum lease payments. If, however, this amount exceeds the fair value of the leased property at the inception of the lease, the asset shall be recorded at its fair market value. An offsetting credit shall be recorded in Account 227, Obligations Under Capital Leases—Noncurrent, with the current portion recorded in Account 243, Obligations Under Capital Leases—Current. Assets recorded in Account 101.1 shall be classified separately according to the detailed accounts (301–399) provided for electric plant in service.

Monthly payments made under the lease obligation shall be charged to rent expense, fuel expense, or construction work-in-progress as they become payable. Similarly, the leased asset and the associated obligation shall be reduced by the current amount due.

The following journal entries shall be used by the lessee to record capital lease transactions:

Dr. 101.1, Property Under Capital Leases
Cr. 243, Obligations Under Capital Leases—Current
Cr. 227, Obligations Under Capital Leases—Noncurrent
To record the capital lease agreement.
Dr. 550, Rents
Cr. 232, Accounts Payable
Dr. 243, Obligations Under Capital Leases—Current
Cr. 101.1, Property Under Capital Leases
To record the monthly rental payment due.
Dr. 232, Accounts Payable
Cr. 131.1, Cash—General
To record the monthly lease payment.

Operating leases which are simple rental agreements do not require the recording of an asset or a liability. The entries that are required to record an operating lease by the lessee are as follows:

Dr. 550, Rents
Cr. 232, Accounts Payable
To record the monthly rental payment due.
Dr. 232, Accounts Payable
Cr. 131.1, Cash—General
To record the monthly lease payment.

For purposes of illustration, the journal entries presented in this interpretation debit Account 550, Rents. However, Account 507, Rents (steam power generation); Account 525, Rents (nuclear power generation); Account 540, Rents (hydraulic power generation); Account 550, Rents (other power production); Account 567, Rents (transmission expense); Account 589, Rents (distribution expense); and Account 931, Rents (general and administrative), should be charged, as appropriate, depending upon the function of the equipment being leased.

404 Consolidated Financial Statements

In October 1987, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 94, Consolidation of All Majority-Owned Subsidiaries (Statement No. 94). For purposes of reporting to RUS, Statement No. 94 shall be applied as follows:

1. An RUS borrower that is a subsidiary of another entity shall prepare and submit to RUS separate financial statements even though this financial information is presented in the parent's consolidated statements.

2. In those cases in which an RUS borrower has a majority-ownership in a subsidiary, the borrower must prepare consolidated financial statements in accordance with the requirements of Statement No. 94. These consolidated statements must also include supplementary schedules presenting a Balance Sheet and Income Statement for each majority-owned subsidiary included in the consolidated statements.

Although Statement No. 94 requires the consolidation of majority-owned subsidiaries, RUS Forms 7 and 12 must be prepared on an unconsolidated basis.

501 Patronage Capital Assignments

Accounting for patronage capital and margins may vary depending upon the individual cooperative's bylaws. The comments contained in this section relate to the application of the standard bylaw provisions.

The entries required, at year's end, to record patronage capital transactions where there is no major merchandising program are as follows:

Dr. 219.1, Operating Margins
Dr. 219.2, Nonoperating margins
Cr. 201.2, Patronage Capital Assignable
To record the amount of patronage capital assignable.
Dr. 201.2, Patronage Capital Assignable
Cr. 201.1, Patronage Capital Credits
To record the allocation of patronage capital to the patrons' accounts.

The procedure for determining the amount of patronage capital assignable to the individual patron on a total dollar basis is as follows:

1. Determine the total amount to be assigned for the year (Account 201.2).

2. Determine patronage from electric service, the total of consumers' billings (Accounts 440–447).

3. Determine the percentage factor to be used in calculating patronage capital to be credited to each consumer account. Divide ''1'' by ''2''.

4. Determine the amount of capital to be credited to each consumer. Multiply the individual consumer's billings for the year by the percentage factor obtained in ''3'' above.

The procedure for determining the amount of patronage capital assignable to the individual patron on a dollar basis, less the cost of power, is as follows:

1. Determine the total amount to be assigned for the year.

2. Determine the total amount of revenue received from each classification of customers.

3. Determine the total cost of power for each classification of customers. (For example, use cost per kWh sold).

4. For each classification of customers subtract the amount obtained in ''3'' from the amount obtained in ''2,'' to obtain the total amount received, less cost of power, by classification of customers.

5. Add the amounts obtained in ''4'' to obtain the total amount of revenue, less cost of power.

6. Divide the total amount received, less cost of power for each classification of customers (amounts obtained in ''4''), by the total amount received, less cost of power for all customers (amount obtained in ''5'') to obtain the prorata percentage for each classification of customers.

7. Multiply the total amount to be allocated (amount obtained in ''1'') by the prorata percentage for each classification of customers (obtained in ''6'')

to obtain the amount to be assigned each classification of customers.

8. Divide the amount to be assigned each classification of customers (amount obtained in ''7'') by the total amount received from the classification of customers (amount obtain in ''2'') to obtain the percentage factor for each classification of customers.

9. Determine the total amount received from each individual customer.

10. Multiply the total amount received from each individual customer (amount obtained in ''9'') by the percentage factor for his classification (amount obtained in ''8'') to obtain the amount of capital to be assigned each individual customer.

After calculating the patronage capital to be credited to each customer, there is usually a small balance remaining. This small balance shall remain in Account 201.2, Patronage Capital Assignable, and shall be added to the amount to be assigned in the following year.

Proper records shall be maintained to support all capital credit transactions. As a minimum, these records shall show, for each patron, the amount of capital credited for each year as well as the amount and date retired for each year.

The process of transferring capital credits from the Patronage Capital Assignable accounts to the Patrons' Capital Credits Assigned accounts or to the Patrons' Capital Credits accounts and the making of entries to individual patron's records constitutes an assignment of capital credits. This holds true for recordkeeping purposes as well as from a legal point of view. This assignment shall be followed by formal notification to patrons within a reasonable period of time.

In the event that a distribution cooperative incurs a net loss, that loss shall not be allocated to its members (patrons). The loss shall be accumulated and offset by future nonoperating margins.

502 Patronage Capital Retirements

As the board of directors has the responsibility for determining whether the financial condition of the cooperative will permit retirement of capital credits and whether the proposed retirement complies with mortgage and bylaw provisions, the authorization for the retirement shall be set forth in the board minutes. The entries to record the general retirement of capital credits shall be as follows:

Dr. 201.1, Patronage Capital Credits
Cr. 238.1, Patronage Capital Payable
To record the board of directors' authorization to make payments of capital credits.
Dr. 238.1, Patronage Capital Payable
Cr. 131.1, Cash—General.
To record actual cash payments of capital credits.

NOTE: To provide better control over the payment of patronage capital credits, a special checking account should be established in an amount equal to the authorized general retirement. Special prenumbered checks shall be used for each general retirement of patronage capital.

To strengthen internal control and to facilitate the settlement of estates, the board should adopt a policy specifying exactly how payments of capital credits shall be made to the estates of deceased patrons. Payments made to estates shall be recorded as follows:

Dr. 201.1, Patronage Capital Credits
Cr. 131.1, Cash—General
To record the payment of capital credits when an estate is settled by refunding 100 cents on the dollar.
Dr. 201.1, Patronage Capital Credits
Cr. 131.1, Cash—General
Cr. 217, Retired Capital Credits—Gain
To record the payment of capital credits when an estate is settled for less than the full amount of capital credited to the deceased customer's account.
Dr. 217, Retired Capital Credits—Gain
Cr. 201.2, Patronage Capital Assignable
To record the reallocation to current patrons of the amount of the discount, if provided for in the bylaws.

If a capital credit check is returned due to an inability to locate the patron, it shall be held pending a recheck of available records to ascertain the correct address of the patron. If it is determined that the patron cannot be located, the check shall be cancelled and the amount of the check debited to Account 131.1, Cash—General, and credited to Account 217, Retired Capital Credits—Gain. If the state, however, has unclaimed property laws to which the amount is subject, the amount shall be credited to Account 253, Other Deferred Credits, until final disposition has been made. A notation shall be made in the records of the former patron to facilitate payment if his or her whereabouts is subsequently determined.

If the records show that a number of former patrons have moved and left no forwarding address, it is not necessary to prepare a capital credit retirement check for these patrons when a general retirement of capital credits is made. When setting funds aside to make a general retirement, however, appropriate amounts shall be included to cover payments due these patrons. The cooperative shall then make a reasonable effort to locate these patrons through publication of their names in the newsletter or local newspaper. If the patrons are not located, the amounts set aside and the credits to their accounts shall be handled in a manner similar to those for whom payment checks are returned.

Under the standard bylaw provisions recommended by RUS, it is not proper to use capital credits that were assigned to former patrons to liquidate their delinquent bills. When the standard bylaws are in effect and collection efforts have failed, the balance of an uncollectible bill, after application of customers deposits and membership fees, shall be charged against the accumulated provision for uncollectible accounts. If the patron has capital credits assigned to him or her, these remain untouched except for a notation to indicate the amount of the unpaid bill. When a general retirement of capital credits is made at some future date, amounts which would otherwise be due the patron may be applied to satisfy the unpaid bill with the balance refunded to him or her.

503 Operating and Nonoperating Margins

Occasionally questions arise concerning the accounting for the balances in Accounts 218, Capital Gains and Losses; 219.3, Other Margins; 219.4, Other Margins and Equities-Prior Periods; 434, Extraordinary Income; and 435, Extraordinary Deductions. The balance in these accounts shall be accounted for as follows:

1. The balance in Account 219.4, Other Margins and Equities—Prior Periods, shall be transferred, at year's end, to Account 219.1 or 219.2, as appropriate. Accounts 219.1 and 219.2 are then closed to Account 201.2, Patronage Capital Assignable, unless otherwise provided for in the bylaws.

2. The balances in Account 434, Extraordinary Income, and Account 435, Extraordinary Deductions, shall be cleared to Account 219.2 at year's end.

3. The balances in Account 219.3, Other Margins, and Account 218, Capital Gains and Losses, shall remain in these accounts unless they are allocated to patrons or used to absorb future losses as provided for in the bylaws of the cooperative.

When a cooperative is engaged in a major merchandising activity, all costs properly chargeable to the merchandising activity shall be allocated as such to offset the associated revenue. Nonoperating margins generated from this source shall be prorated annually on a patronage basis and credited to those patrons accounts from whom such amounts were obtained. Merchandising activities of this nature may require a bylaw provision allowing for the allocation of margins generated by a major merchandising activity separate from other operating or nonoperating margins.

If, at the time of the adoption of the bylaw provisions for the allocation of nonoperating margins, there are prior years' losses resulting in debit balances in Accounts 218, Capital Gains and Losses; 219.1, Operating Margins; 219.2, Nonoperating Margins; or 219.3, Other Margins; the credit balances in Accounts 218, 219.2, or 219.3 resulting from prior years' operations shall be transferred, to the extent necessary, to offset such deficits. If the board determines that amounts shall be allocated to prior years' patrons, the credit balances remaining in these accounts shall be transferred to Account 201.2, Patronage Capital Assignable.

If there are current year's losses resulting in debit balances in either Account 219.1 or 219.2, credit balances in Accounts 219.2, 219.3, and 218 shall be transferred, to the extent necessary, to offset such deficits. Remaining credit balances allocable to patrons shall be transferred to Account 1.2.

504 Patronage Capital from G&T Cooperatives

When a cooperative receives capital credits from a G&T cooperative, the transaction shall be recorded by a debit to Account 123.1, Patronage Capital from Associated Cooperatives, and a credit to Account 423, Generation and Transmission Cooperative Capital Credits. This entry shall be made priorto the closing of the cooperative's books even though, in most cases, the notice of the G&T allocation is not received until after the close of the year to which it relates. If precise information cannot be obtained from the G&T within a reasonable time, capital credits shall be recorded on an estimated basis. The difference between the estimated amount and the actual shall be recognized in the following year unless the difference is material.

A distribution cooperative shall not recognize its proportionate share of losses incurred by the G&T. G&T losses shall be accumulated and offset as provided for in the bylaws. Unlike distribution cooperatives, a G&T has the option to offset accumulated losses with future operating and/or nonoperating margins.

505 Patronage Capital Furnished by Other Cooperative Service Organizations

Utilities may obtain long-term and short-term loans, telephone or data processing services, or may purchase oil, gasoline, materials, insurance, and various items from cooperative or mutual enterprises. These enterprises often make patronage refunds or provide evidence that an amount equal to such a refund has been credited to the utility as an investment of capital. The refund may be in the form of cash in the year following the purchase or it may be deducted from the next invoice. The notice of patronage credited to the borrower's account may indicate that such capital may be retired at some future date upon certain conditions having been met. The following provides the accounting journal entries for these types of transactions:

1. Insurance policy refunds from mutual companies, in cash or as credits against subsequent purchases, shall be credited to the appropriate expense account. If sufficient information is not available to credit the refunds to the appropriate expense accounts, they shall be credited to Account 165, Prepayments, and reduce premiums for the current year.

2. Patronage capital allocations from cooperatives, other than mutual insurance companies, shall be credited, in the year that the allocation notice is received, to Account 424, Other Capital Credits and Patronage Allocations, or to construction work-in-progress, as appropriate. The allocation of patronage capital credits between Account 424 and construction work-in-progress shall be made on an equitable basis. For example, patronage capital allocations received from a cooperative money lender are allocated between Account 424 and construction work-in-progress based upon the ratio of interest charged to construction for that particular lender to total interest expense incurred for that lender. Patronage capital allocations received from a material supplier are allocated based upon the ratio of materials charged to construction to total materials purchased.

3. The face amount of patronage capital certificates received by the cooperative from the purchase of goods or services from cooperative money lenders (CFC), oil dealers, material suppliers, pole treating plants, communications services, and others shall be charged to either Account 123.1, Patronage Capital from Associated Cooperatives, or Account 124, Other Investments, as appropriate. Account 123.1 shall include investments in only those cooperatives, or enterprises, that are directly related to the electric utility industry and controlled by the electric cooperatives. These include statewide cooperatives, power cooperatives, and NRECA. Other investments in oil cooperatives and insurance companies shall be charged to Account 124.

506 Forfeited Membership Fees

The bylaws of each cooperative prescribe certain rules and regulations concerning membership in the cooperative. Among these are provisions for forfeiture of membership fees. Some bylaws provide for application of membership fees against any unpaid accounts at the time of termination of service. Any remaining balance may be refunded to the member. Balances that cannot be refunded to the member due to an inability to locate the member or due to bylaw restriction, shall be credited to Account 208, Donated Capital, provided they do not escheat to the state. If disposition of the fees cannot be determined immediately, the amount involved shall be transferred to Account 253, Other Deferred Credits, until the determination is made.

601 Employee Benefits

The costs of employees' fringe benefits (hospitalization, retirement, holiday, sick and vacation pay, etc.) shall be accumulated in an appropriate clearing account and allocated monthly on the basis of payroll. Vacation costs shall be accrued monthly by appropriate credits to an accrual account. These monthly accruals shall be allocated on the basis of direct payroll costs to construction and retirement with the expense portion being charged to Account 926, Employee Pensions and Benefits.

Sick leave costs are not normally accrued unless the employee is entitled to be paid for accumulated sick leave at the termination of employment. Salary payments to an employee who is actually sick shall be charged to the same account or accounts to which his or her salary is normally charged.

602 Compensated Absences

Statement of Financial Accounting Standards No. 43, Accounting for Compensated Absences (Statement No. 43), requires employers to accrue a liability as an employee earns the right to be paid for future absences. Four criteria were established for this accrual:

1. The employer's obligation for payment for future absences is attributable to employees' services already performed.

2. The obligation relates to employee rights which vest or accumulate. Vested rights are considered those for which the employer is obligated to make payment even if the employee terminates. Rights which accumulate are those earned, but unused rights to compensated absences which may be carried forward to one or more periods subsequent to the period in which they are earned.

3. Payment of the compensation is probable.

4. The amount can be reasonably estimated.

A company's liability shall be estimated based upon payments it expects to make as a result of employees' work already performed. If a reasonable estimate cannot be made, the company shall disclose that fact in the financial statements.

Statement No. 43 does not apply to severance or termination pay, post-retirement benefits, deferred compensation, stock or stock options, group insurance, or other long-term fringe benefits.

The entries required to account for the accrual of compensated absences are as follows:

Dr. 435.1, Cumulative Effect on Prior Years of a Change in Accounting Principle
Cr. 242.3, Accrued Employees' Vacation and Holidays
To record the liability for benefits earned in prior years.

Dr. 107, Construction Work in Progress
Dr. 108.8, Retirement Work in Progress
Dr. 926, Employee Pensions and Benefits
Cr. 242.3, Accrued Employees Vacation and Holidays
To record the liability for benefits earned in the current period.

603 Employee Retirement and Group Insurance

Some borrowers have group insurance or retirement plans or both for their employees. As a general rule the cost of these programs is borne partially by the cooperative and partially by its employees. The cooperative may pay the full cost in advance and recover the employee's share through payroll deductions. The accounting for these transactions is as follows:

1. The cooperative's advanced payment of premiums on insurance and retirement agreements shall be charged to Account 165, Prepayments, for the employers portion, and Account 143, Other Accounts Receivable, for the employee's portion.

2. The cost of the employer's portion of a retirement and group insurance program shall be charged as follows:

a. If the participating employees work entirely on operations and maintenance, the debit shall be to Account 926, Employees Pensions and Benefits.

b. If the employees' time is charged to construction or retirement activities, the charge shall be prorated between construction, retirement, and Account 926, Employee Pensions and Benefits, in the ratio in which the employees' wages have been distributed.

604 Deferred Compensation

Many utilities participate in the NRECA Deferred Compensation Program. Based upon the provisions of the program, the following accounting entries shall be made:

Dr. 186.XX, Miscellaneous Deferred Debits—Deferred Compensation
Cr. 228.3, Accumulated Provision for Pensions and Benefits

To increase the deferred compensation provision by the amount of the annual deposit to NRECA's Deferred Compensation Fund.

Dr. 128, Other Special Funds—Deferred Compensation
Cr. 131.1, Cash—General

To record the annual deposit to NRECA's Deferred Compensation Fund.

Dr. Construction Work in Progress, Retirement Work in Progress, or Account 926, Employee Pensions and Benefits, as appropriate.
Cr. 186.XX, Miscellaneous Deferred Debits—Deferred Compensation

To record monthly accrual of deferred compensation.

NOTE: If an employee joins the deferred compensation program during the year, use entry #1 to record the additional deposit to the NRECA Deferred Compensation Fund and increase the monthly accrual in entry #2 to reflect this deposit.

NRECA provides borrowers that participate in the deferred compensation program with an annual account statement disclosing the activity for each Homestead Fund investment including the number of shares owned, interest income, dividend income, capital gains/losses, and the value of the shares owned at statement date. Funds may be invested in the Short-term Bond Fund, the Value Fund, the Short-term Government Securities Fund, and the Daily Income Fund. Depending upon the Homestead Fund selected, invested funds may earn interest and dividend income and may experience unrealized holding gains or losses. Based upon the information provided on the annual statement, the following journal entries shall be recorded to recognize the increase or decrease in the fund assets:

Dr. 128, Other Special Funds—Deferred Compensation
Cr. 419, Interest and Dividend Income
Cr. 421, Miscellaneous Nonoperating Income

To record an increase in the fund value as of December 31, 19xx, resulting from interest and dividend income and from unrecognized holding gains on trading securities.

Dr. 926, Employee Pensions and Benefits
Cr. 228.3, Accumulated Provision for Pensions and Benefits

To record an increase in the liability to the employee resulting from an increase in the investment account.

Dr. 426.5, Other Deductions
Cr. 128, Other Special Funds—Deferred Compensation To record a decrease in fund value as of December 31, 19xx, resulting from unrecognized holding losses on trading securities.

Dr. 228.3, Accumulated Provision for Pensions and Benefits
Cr. 926, Employee Pensions and Benefits

To record a decrease in the liability to the employee resulting from a decrease in the investment account.

Payments made to participating employees because of retirement or separation for other reasons shall be recorded using the following entries:

Dr. 131.1, Cash—General
Cr. 128, Other Special Funds—Deferred Compensation

To record the receipt of funds from NRECA.

and

Dr. 228.3, Accumulated Provision for Pensions and Benefits
Cr. 131.1, Cash—General

To record payment to employee for deferred compensation.

If the borrower has elected to bear the market risk of the funds which guarantee that the amount of money an employee receives will not be less than the amount of salary deferred, the following entry shall be recorded if total payment(s) from NRECA are less than the amount of salary deferred:

Dr. 926, Employee Pensions and Benefits

Cr. 131.1, Cash—General

To record payment to employee for deferred compensation. Payment was made because amount returned did not equal salary deferred.

Appropriate disclosure of the terms of the program shall be made in the notes to the financial statements.

605 Life Insurance Premium on Life of a Borrower Employee

Some borrowers insure the life of the manager and/or key employees with the borrower being named as the beneficiary. Such arrangements shall be accounted for as follows:

1. Charge Account 426.2, Life Insurance, for the net amount of the premium paid each year on the insurance policy.

2. At the anniversary date of the policy each year, charge Account 124, Other Investments, and credit Account 426.2, Life Insurance, with the amount of the annual increase in the cash surrender value of the policy; provided such increase is less than the net premium paid for that year. If the annual increase in the surrender value exceeds the net premium paid for the same year, only that portion of the surrender value increase equal to the net premium paid shall be credited to Account 426.2. The remainder is to be credited to Account 419, Interest and Dividend Income.

3. Upon retirement of the insured employee and surrender of the insurance policy, charge Account 131.1, Cash—General, and credit Account 124, Other Investments, for the amount received from the insurance company. If it is decided to grant to the retiring insured employee all, or any portion, of the cash received upon surrender of the policy, Account 926, Employee Pensions and Benefits, shall be charged and Account 131.1 credited for the amount paid to the retiring employee.

4. If the insured employee dies within his term of service, charge Account 131.1, Cash—General, for the face amount of the policy paid by the insurance company. Credit Account 124, Other Investments, for the cash surrender value previously charged thereto, and credit the remainder to Account 421, Miscellaneous Nonoperating Income.

606 Pension Costs

With the issuance of Statement of Financial Accounting Standards No. 87, Employers' Accounting for Pensions (Statement No. 87), there have been significant changes in the accounting and reporting requirements relating to pension costs. This section will highlight the accounting and reporting requirements for the major types of pension plans. It should be noted, however, that the definitions and accounting procedures outlined in this section relate to financial accounting and they may differ from those used for tax accounting.

Defined Benefit Pension Plans

A defined benefit pension plan is a plan that defines an amount of pension benefit to be provided, usually as a function of one or more factors such as age, years of service, or compensation. In a defined benefit plan, the employer promises to provide, in addition to current wages, retirement income payments in future years after the employee retires or terminates service. Generally, the amount of benefit to be paid depends upon a number of future events that are incorporated into the plan's benefit formula, after including how long the employee and any survivors live, how many years of service the employee renders, and the employee's compensation in the years immediately before retirement or termination.

Under a defined benefit plan, the determination of pension costs, assets, liabilities, and the disclosures in the financial statements require many calculations and assumptions to be made. This section provides a general overview of the accounting and reporting requirements associated with a defined benefit pension plan. Consult Statement No. 87 for guidance in making the necessary calculations and assumption.

The accounting and reporting requirements related to a defined benefit pension plan are as follows:

1. The following components shall be included in the periodic recognition of net pension cost by an employer sponsoring a defined benefit pension plan:

a. The service cost component recognized in a period shall be determined as the actuarial present value of benefits attributed by the pension plan formula to employee service during that period. The measurement of the service cost component requires use of an attribution method and assumptions.

b. The interest cost component recognized in a period shall be determined as the increase in the projected benefit obligation due to the passage of time. Measuring the projected benefit obligation as a present value requires accrual of an interest cost at rates equal to the assumed discount rates.

c. For a funded plan, the actual return on plan assets, if any, shall be determined based upon the fair value of plan assets at the beginning and the end of the period, adjusted for contributions and benefit payments.

d. Plan amendments (including initiation of a plan) often include provisions that grant increased benefits based upon services rendered in prior period. Because plan amendments are granted with the expectation that the employer will realize economic benefits in future period, Statement No. 87 does not require the cost of providing such retroactive benefits (prior service cost) to be included in net periodic pension cost entirely in the year of the amendment but provides for recognition during the future service periods of those employees active at the date of the amendment who are expected to receive benefits under the plan.

The cost of retroactive benefits (including benefits that are granted to retirees) is the increase in the projected benefit obligation at the date of the amendment. Except as noted below, prior service cost shall be amortized by assigning an equal amount to each future period of service of each employee active at the date of the amendments who is expected to receive benefits under the plan. If all or almost all of the plan's participants are inactive, the cost of retroactive plan amendments affecting benefits of inactive participants shall be amortized based upon the remaining life expectancy of those participants rather than the remaining service period.

To reduce the complexity and detail of the computations require, consistent use of an alternative amortization approach that more rapidly reduces the unrecognized cost of retroactive amendments is acceptable. For example, a straight-line amortization of the cost over the average remaining service period of employees expected to receive benefits under the plan is acceptable. The alternative method used shall be disclosed.

In some situations, a history of regular plan amendments and other evidence may indicate that the period during which the employee expects to realize economic benefits from an amendment granting retroactive benefits is shorter than the entire remaining service period of the active employees. Identification of such situations requires an assessment of the individual circumstances and the substance of the particular plan situation. In those circumstances, the amortization of prior service cost shall be accelerated to reflect the more rapid expiration of the employer's economic benefits and to recognize the cost in the periods benefited.

A plan amendment can reduce rather than increase the projected benefit obligation. Such a reduction shall be used to reduce an existing unrecognized prior service cost, and the excess, if any, shall be amortized on the same basis as the cost of benefit increases.

e. Gains and losses are changes in the amount of either the projected benefit obligation or plan assets resulting from experience different from that assumed and changes in assumptions. Gains and losses include amounts that have been realized. Because gains and losses may reflect refinements in estimates as well as real changes in economic values and because some gains in one period may be offset by losses in another or vice versa, the recognition of gains and losses as components of net pension cost of the period in which they arise, is not required.

The expected return on plan assets shall be determined based upon the expected long-term rate of return on plan assets and the market-related value of plan assets. The market-related value of plan assets shall be either fair value or a calculated value that recognizes changes in fair value in a systematic and rational manner over not more than 5 years. Different ways of calculating market-related value may be used for different classes of assets but the manner of determining market-related value shall be applied consistently from year to year for each asset class.

Asset gains and losses are the differences between the actual return on assets during a period and the expected return on assets for that period. Assets gains and losses include both changes reflected in the market-related value of assets and changes not yet reflected in the market-related value (that is, the difference between the fair value of assets and the market-related value). Asset gains and losses not yet reflected in market-related values are not required to be amortized.

As a minimum, amortization of an unrecognized gain or loss (excluding asset gains and losses not yet reflected in market-related value) shall be included as a component of net pension cost for a year if, as of the beginning of the year, that unrecognized net gain or loss exceeds 10 percent of the greater of the projected benefit obligation or the market-related value of plan assets. If amortization is required, the minimum amortization shall be that excess divided by the average remaining service period of active employees expected to receive benefits under the plan. If all or almost all of a plan's participants are inactive, the average remaining life expectancy of the inactive participants shall be used instead of average remaining service life.

Any systematic method of amortization of gains and losses may be used in lieu of the minimum specified in the previous paragraph provided that the minimum is used in any period in which the minimum is greater (reduces the net balance by more), the method is applied consistently, the method is applied similarly to both gains and losses, and the method is disclosed.

The gain or loss component of net periodic pension cost shall consist of the difference between the actual return on plan assets and the expected return on plan assets and amortization of the unrecognized net gain or loss from previous periods.

2. A liability (unfunded accrued pension cost) shall be recognized if net periodic pension cost recognized pursuant to Statement No. 87 exceeds amounts the employer has contributed to the plan. An asset (prepaid pension cost) shall be recognized if net periodic pension cost is less than amounts the employer has contributed to the plan.

If the accumulated benefit obligation exceeds the fair value of plan assets, the employer shall recognize a liability (including unfunded accrued pension cost) that is at least equal to the unfunded accumulated benefit obligation. Recognition of an additional minimum liability is required if an unfunded accumulated benefit obligation exists and an asset has been recognized as a prepaid pension cost, the liability already recognized as unfunded accrued pension cost is less than the unfunded accumulated benefit obligation, or no accrued or prepaid pension cost has been recognized.

If an additional minimum liability is recognized, an equal amount shall be recognized as an intangible asset, provided that the asset does not exceed the amount of unrecognized prior service cost. If an additional liability required to be recognized exceeds unrecognized prior service cost, the excess (which represents a net loss not yet recognized as a net periodic pension cost) shall be reported as a separate component (reduction) of equity.

When a new determination of the amount of additional liability is made to prepare a balance sheet, the related intangible asset and separate component of equity shall be eliminated or adjusted, as necessary.

3. An employer sponsoring a defined benefit pension plan shall disclose the following information:

a. A description of the plan including employee groups covered, type of benefit formula, funding policy, types of assets held and significant nonbenefit liabilities, if any, and the nature and effect of significant matters affecting comparability of information for all period presented.

b. The amount of net periodic pension cost for the period showing separately the service cost component, the interest cost component, the actual return on assets for the period, and the net total of other components.

c. A schedule reconciling the funded status of the plan with amounts reported in the employer's balance sheet, showing separately, the fair value of plan assets, the projected benefit obligation identifying the accumulated benefit obligation and the vested benefit obligation, the amount of unrecognized prior service cost, the amount of unrecognized net gain or loss including asset gains and losses not yet reflected in market-related value), the amount of any remaining unrecognized net obligation or net asset existing at the date of initial application of Statement No. 87, the amount of any additional liability recognized, and the amount of net pension asset or liability recognized in the balance sheet (which is the net result of combining the previous six items).

d. The weighted-average assumed discount rate and rate of compensation increase (if applicable) used to measure the projected benefit obligation and the weighted-average expected long-term rate of return on plan assets.

e. If applicable, the amount and type of securities of the employer and related parties included in plan assets, and the approximate amount of annual benefits of employees and retirees covered by annuity contracts issued by the employer and related parties. Also, if applicable, the alternative amortization periods used.

f. An employer that sponsors two or more separate defined benefit pension plans shall determine net periodic pension cost, liabilities, and assets by separately applying the provisions of Statement No. 87 to each plan. In particular, unless an employer clearly has a right to use the assets of one plan to pay benefits of another, a liability required to be recognized for one plan shall not be reduced or eliminated because another plan has assets in excess of its accumulated benefit obligation or because the employer has prepaid pension cost related to another plan.

The required disclosures may be aggregated for all of an employer's single-employer defined benefit plans, or plans may be disaggregated into groups so as to provide the most useful information. Plans with assets in excess of the accumulated benefit obligation, however, shall not be aggregated with plans that have accumulated benefit obligations that exceed plan assets.

Annuity Contracts

An annuity contract is a contract in which an insurance company unconditionally undertakes a legal obligation to provide specified benefits to specific individuals in return for a fixed consideration or premium. An annuity contract is irrevocable and involves the transfer of significant risk from the employer to the insurance company. Some annuity contracts (participating annuity contracts) provide that the purchaser (either the plan or the employer) may participate in the experience of the insurance company. Under these contracts, the insurance company ordinarily pays dividends to the purchaser. If the substance of a participating contract is such that the employer remains subject to all or most of the risks and rewards associated with the benefit obligation covered and the assets transferred to the insurance company, that contract is not an annuity contract for purposes of Statement No. 87.

To the extent that benefits currently earned are covered by annuity contracts, the cost of these benefits shall be the cost of purchasing the contracts, except as noted below. That is, if all benefits attributed by the plan's benefits formula to service in the current period are covered by nonparticipating annuity contracts, the cost of the contracts determines the service cost component of net pension cost for that period.

Benefits provided by the pension benefit formula beyond benefits provided by annuity contracts (for example, benefits related to future compensation levels) shall be accounted for according to the provisions applicable to plans not involving insurance contracts.

Benefits covered by annuity contracts shall be excluded from the projected benefit obligation and the accumulated benefit obligation. Except as noted below, annuity contracts shall be excluded from plan assets.

Some annuity contracts provide that the purchaser (either the plan or the employer) may participate in the experience of the insurance company. Under these contracts, the insurance company ordinarily pays dividends to the purchaser, the effect of which is to reduce the cost of the plan. The purchase price of a participating annuity contract ordinarily is higher than the price of an equivalent contract without participation rights. The cost of the participation right shall be recognized, at the date of purchase, as an asset. In subsequent periods, the participation right shall be measured at its fair value if the contract is such that the fair value is reasonably estimable. Otherwise, the participation right shall be measured at its amortized cost (not in excess of its net realizable value), and the cost shall be amortized systematically over the expected dividend period under the contract.

Other Contracts with Insurance Companies

Insurance contracts that are, in substance, equivalent to the purchase of annuities shall be accounted for as such. Other contracts with insurance companies shall be accounted for as investments and measured at fair value. For some contracts, the best available evidence of fair value may be contract value. If a contract has a determinable cash surrender value or conversion value, that is presumed to be its fair value.

Defined Contribution Plans

A defined contribution pension plan is a plan that provides pension benefits in return for services rendered, provides an individual account for each participant, and has terms that specify how contributions to the individual's accounts are to be determined rather than the amount of pension benefits the individual is to receive. Under a defined contribution plan, the pension benefits a participant will receive depend only upon the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to the participant's account.

To the extent that a plan's defined contributions to an individual's account are to be made for periods in which that individual renders services, the net pension cost for a period shall be the contribution called for in that period. If a plan calls for contributions for periods after an individual retires or terminates, the estimated cost shall be accrued during the employee's service period.

An employer that sponsors one or more defined contribution plans shall disclose the following separately from its defined benefit plan disclosures:

1. A description of the plan(s) including employee groups covered, the basis for determining contributions, and the nature and effect of significant matters affecting comparability of information for all periods presented.

2. The amount of cost recognized during the period.

A pension plan having characteristics of both a defined benefit plan and a defined contribution plan requires careful analysis. If the substance of the plan is to provide a defined benefit, as may be the case with some ''target benefit'' plans, the accounting and disclosure requirements shall be determined in accordance with the provisions applicable to a defined benefit plan.

Multiemployer Plans

A multiemployer plan is a pension plan to which two or more unrelated employers contribute, usually pursuant to one or more collective-bargaining agreements. A characteristic of multiemployer plans is that assets contributed by one participating employer may be used to provide benefits to employees of other participating employers since assets contributed by an employer are not segregated in a separate account or restricted to provide benefits only to employees of that employer.

An employer participating in a multiemployer plan shall recognize as net pension cost, the required contribution for the period and shall recognize as a liability, any contributions due and unpaid. The required contribution includes both current costs and prior service costs. If an employer elects to fund prior service cost in full at the inception of the plan, the total payment becomes the employer's required contribution, and accordingly, its pension cost for the period.

The following provisions are applicable to RUS borrowers participating in a multiemployer pension plan:

1. An electric utility participating in a multiemployer plan may defer current period pension expenses if the provisions of Statement of Financial Accounting Standards No. 71 (Statement No. 71), Accounting for the Effects of Certain Types of Regulation, are applied.

Under the provisions of Statement No. 71, pension costs may be deferred provided such costs are recovered through future rates.

2. An electric utility instituting an amendment to the NRECA Retirement and Security plan enters into a contractual agreement to pay the costs incurred (prior service pension costs) for the amendment. In such cases, the agreement is noncancelable and payable regardless of continued participation in the plan.

Since the utility is unconditionally committed to making these payments and such payments are not contingent upon the utility's continued participation in the plan, the recognition of that liability is appropriate. The costs associated with this liability shall be expensed, in their entirety, when the liability is recognized.

The accounting journal entries required to record the transactions associated with a multiemployer pension plan are as follows:

SAMPLE 1—CURRENT PENSION EXPENSE

The journal entry required to record the normal costs associated with the NRECA Retirement and Security Program is as follows:

Dr. 926, Employee Pensions and Benefits
Dr. 107, Construction Work-in-Progress
Dr. 108.8, Retirement Work-in-Progress
Cr. 131.1, Cash—General
To record the payment of pension costs to NRECA.

NOTE: This entry shall not be recorded during the moratorium.

SAMPLE 2—PRIOR SERVICE PENSION EXPENSE

The journal entries required to record the prior service costs associated with the NRECA Retirement and Security Program are as follows:

1. If the RUS borrower elects to pay the prior service pension costs in full, and there is no deferral of costs under the provision of Statement No. 71, the following entry shall be recorded:

Dr. 926, Employee Pensions and Benefits
Dr. 107, Construction Work-in-Progress
Dr. 108.8, Retirement Work-in-Progress
Cr. 131.1, Cash—General
To record the payment of prior service pension costs to NRECA.

2. If the RUS borrower elects to finance prior service pension costs over a period of years and there is no deferral of costs under the provisions of Statement No. 71, the following entries shall be recorded:

Dr. 926, Employee Pensions and Benefits
Dr. 107, Construction Work-in-Progress
Dr. 108.8, Retirement Work-in-Progress
Cr. 224, Other Long-Term Debt
To record the liability to NRECA for prior service pension costs.
Dr. 224, Other Long-Term Debt
Dr. 427, Interest on Long-Term Debt
Cr. 131.1, Cash—General
To record the annual payment to NRECA for prior service pension costs.

3. If the RUS borrower elects to finance prior service pension costs over a period of years and such costs are being deferred and amortized in accordance with the provisions of Statement No. 71, the following entries shall be recorded:

Dr. 182.3, Other Regulatory Assets
Cr. 224, Other Long-Term Debt
To record the liability to NRECA for prior service pension costs.
Dr. 926, Employee Pension and Benefits
Dr. 107, Construction Work-in-Progress
Dr. 108.8, Retirement Work-in-Progress
Cr. 182.3, Other Regulatory Assets
To record the amortization of deferred prior service pension costs.
Dr. 224, Other Long-Term Debt
Dr. 427, Interest on Long-Term Debt
Cr. 131.1, Cash—General
To record the annual payment to NRECA for prior service pension costs.

4. If the RUS borrower elects to pay the prior service pension costs in full and such costs are being deferred and amortized in accordance with the provisions of Statement No. 71, the following entries shall be recorded:

Dr. 182.3, Other Regulatory Assets
Cr. 131.1, Cash—General

To record the payment to NRECA for prior service pension costs.
Dr. 926, Employee Pensions and Benefits
Dr. 107, Construction Work-in-Progress
Dr. 108.8, Retirement Work-in-Progress
Cr. 182.3, Other Regulatory Assets
To record the amortization of deferred prior service pension costs.

It should be noted that although the above entries relate specifically to the NRECA Retirement and Security Program, they are applicable to all multiemployer pension plans.

An employer that participates in one or more multiemployer plans shall disclose the following separately from disclosures for a single-employer plan:

1. A description of the multiemployer plan(s) including the employee groups covered, the type of benefits provided (defined benefit or defined contribution), and the nature and effect of significant matters affecting comparability of information for all periods presented.
2. The amount of cost recognized during the period.

Multiple-Employer Plans

A multiple-employer plan is, in substance, aggregations of single-employer plans combined to pool their assets for investment purposes to reduce the cost of plan administration. Under a multiple-employer plan, assets are segregated and specifically identified to an employer. In addition, such plans may have features that allow participating employers to have different benefit formulas. Such plans shall be considered single-employer plans for financial accounting purposes and each employer's accounting shall be based upon its respective interest in the plan.

607 Unproductive Time

Lost time relating to construction, operations and maintenance shall be allocated on the basis of direct payroll costs to the appropriate construction, operations or maintenance accounts in the month incurred. Lost time is defined as time on duty during which productive work is not performed due to inclement weather conditions, material shortages, machine repairs, or other reasons.

If lost time attributable to construction has a material effect on the construction accounts in any one month, these costs shall be deferred and distributed over a reasonable period of time by means of a predetermined percentage based upon direct labor.

608 Training Costs, Attendance at Meetings, etc.

Utilities engage in many types of training programs. Seminars are conducted for directors, managers, office managers, attorneys, engineers, and others. Bookkeepers and office managers attend accountants' meetings. Safety engineers attend safety schools and subsequently conduct regular safety meetings at the cooperative. Costs incurred for the various types of training activities shall be accounted for as follows:

1. Managers' and directors' expenses to attend the NRECA national and state conventions shall be charged to Account 930.2, Miscellaneous General Expenses.
2. Management or engineering seminar fees, salary time attending such seminars, and the related per diem and expenses shall be charged to Account 926, Employee Pensions and Benefits, if the meeting is primarily for the benefit of the employee. If the meeting is primarily for the benefit of the employer, the functional expense accounts shall be charged for fees and expenses. Salaries paid to employees shall be charged to the appropriate labor expense accounts rather than to Account 926. Fees and expenses for directors' attendance shall be charged to Account 930.2, Miscellaneous General Expenses.
3. When the office manager, bookkeeper, or work order clerk attends a state or regional accounting meeting, their salary time shall be charged to the account to which the employees' time is ordinarily charged.
4. Employees' salary time spent attending regular safety meetings conducted by the cooperative shall be charged to the account to which the employees' time is ordinarily charged.
5. A safety engineer's salary time spent attending a statewide safety school shall be charged to Account 925, Injuries and Damages.
6. The salary time spent by a manager or line foreman conducting weekly safely meetings shall be charged to

the appropriate functional expense accounts including Account 590, Maintenance, Supervision and Engineering, and Account 920, Administrative and General Services.

609 Maintenance and Operations

''Operations'' is the general term used to describe activities involved in the delivery of electric service, by means of a distribution system, to the end user. It pertains to the use of the utility's electric plant facilities and does not include activities intended to prevent or remedy an impending or actual breakdown of those facilities. These activities are classified as maintenance.

''Maintenance'' is the general term used to describe the activities involved in the upkeep and repair, but not the enlargement or improvement, of property owned or leased and operated by the company. It does not include the replacement of retirement units.

610 Financial Forecast

Costs incurred and salaries paid to perform a 10-year financial forecast shall be charged to Account 920, Administrative and General Salaries. Related office supplies and expenses shall be charged to Account 921, Office Supplies and Expenses. When a forecast is performed by an outside consultant, the cost shall be charged to Account 923, Outside Services Employed.

611 Advertising Expense

The cost of advertising and the cost of informing the public about the electric cooperative's activities shall be charged to Account 930.2, Miscellaneous General Expenses.

Most of a cooperative's advertising is instructional in nature and relates the cooperative's history and current activities. This type of advertising activity should not be confused with that directed towards the enactment of a specific law or laws directed toward obtaining a specific decision from a regulatory body. Political advertising of the type defined above shall be charged to Account 426.4, Expenditures for Certain Civic, Political, and Related Activities.

612 Special Power Cost Study

A special power cost study is defined as a study to determine whether sufficient power will be available in the future. If additional power or power sources are needed, the study determines whether generation or purchase will supply the lesser cost. The study also indicates when additional power will be needed. As costs are incurred, they shall be charged to a subaccount of Account 186, Miscellaneous Deferred Debits. Upon completion of the study, the costs shall be charged to Account 557, Other Expenses, or amortized to Account 557 over a period of time not to exceed 5 years.

613 Mapping Costs

The purpose of posting completed work orders to system maps is to improve the operation of the system. These costs shall, therefore, be charged to Account 588, Miscellaneous Distribution Expenses. However, the cost of system mapping in the planning stage of construction is an acceptable overhead cost of the resulting construction.

614 Member Relations Costs

Many electric cooperatives hire employees whose duties concern a mixture of power use and member relations activities. The salaries for these employees shall be charged to Account 930.2, Miscellaneous General Expenses, except as provided below:

1. Account 912, Demonstrating and Selling Expenses, shall be charged with all labor, material, advertising, and other expenses incurred in promotional, demonstrating, and selling activities; the objective of which is to promote or retain the use of utility services by present or prospective customers.

2. Account 930.1, General Advertising Expenses, shall be charged with labor, material, and other expenses incurred in advertising and related activities, the cost of which by their content and purpose, are not provided for elsewhere.

3. Account 416, Costs and Expenses of Merchandising, Jobbing, and Contract Work, shall be charged with all costs specifically related to merchandising

activities when the utility is engaged in a major merchandising program.

4. Account 426.4, Expenditures for Certain Civic, Political, and Related Activities, shall be charged with expenditures for the purpose of influencing public opinion with respect to the election or appointment of public officials, referenda, legislation, or ordinances (either with respect to the possible adoption of new referenda, legislation or ordinances or repeal or modification of existing referenda, legislation or ordinances); or approval, modification, or revocation of franchises; or for the purpose of influencing the decisions of public officials. Account 426.4 shall not include expenditures which are directly related to appearances before regulatory or other governmental bodies in connection with the borrower's existing or proposed operations.

615 Statewide Fees

Additional fees collected by a statewide association from its members for construction of a statewide building shall be charged to Account 930.2, Miscellaneous General Expenses. Any amounts that are to be repaid by the state association shall be charged to Account 143, Other Accounts Receivable, or Account 123.23, Other Investments in Associated Organizations, depending upon the terms of the repayment.

616 Power Supply/Distribution Cooperative Borrowings

When a power supply cooperative borrows money from a distribution cooperative as the result of a long-term loan agreement, the money shall be recorded on the books of the power supply cooperative as general funds unless restricted to a specific purpose. If restricted, the funds shall be recorded in Account 128, Other Special Funds. The resulting liability shall be recorded in Account 224, Other Long-Term Debt.

The transaction shall be charged to Account 123.23, Other Investments in Associated Organizations, on the books of the distribution cooperative.

617 Rate Discount Allowed by the Power Cooperative to Distribution Cooperatives Owning Connecting Transmission Lines

A distribution cooperative purchases power from a power cooperative. The distribution cooperative owns and operates the transmission line between the power cooperative's facilities and the distribution facilities. Because of this, power is sold at the standard rate at which the power cooperative sells to other distribution cooperatives who do not own their transmission lines, less a discount. The discount or reduction in rate is based upon the distribution cooperative's expense in operating and maintaining its transmission facilities. The contract between the power cooperative and the distribution cooperative must specifically state that the member shall receive a reduced rate or discount from the seller's rate to other member cooperatives.

Under this type of arrangement, the distribution cooperative shall record the cost of purchased power by charging the net amount to Account 555, Purchased Power.

618 Theft Losses not Covered by Insurance

Utilities may suffer losses as a result of thefts of cash, materials and supplies, equipment, or electric plant-in-service that is not covered by insurance. The charges for nominal uninsured losses shall be recorded in the following accounts:

1. Cash—Account 924, Property Insurance, shall be charged.

2. Plant materials and operating supplies—Account 163, Stores Expense Undistributed, shall be charged.

3. Equipment—Account 163, Stores Expense Undistributed, shall be charged for stores equipment; Account 184, Transportation Expense—Clearing, for transportation and garage equipment; and Account 924, Property Insurance, for all other equipment.

4. Electric Plant-in-Service—A retirement work order shall be prepared for electric plant constituting a unit of property. The loss due to retirement

shall be charged to Account 108.6, Accumulated Provision for Depreciation of Distribution Plant. If the plant does not constitute a retirement unit, the loss shall be charged to the appropriate maintenance expense account.

619 Self Billing

To maintain the books of accounts on an accrual basis, bills for customers who self bill and have not sent in a reading or remittance, shall be estimated. A journal entry shall be made to record the estimated revenue and kWh sold by debiting accounts receivable and crediting the appropriate revenue accounts. The estimated bill shall be posted to the customer's account and identified by an appropriate symbol indicating that it is an estimate. Reconciliation with the general ledger control is made in the usual manner.

620 Purchase Rebates

Some vendors from which electric cooperatives purchase plant materials and supplies and merchandise for resale are making purchase rebates based upon the quantity or dollar volume of purchases. These ''quantity discounts'' may be in the form of cash or credit memoranda, in the form of prepaid package travel arrangements, or a combination of such methods. The rebate shall be accounted for as a reduction in the cost of the material or appliances upon which it was based.

In some instances, the rebate may be for material or appliances that are no longer in stock or cannot be identified. If the rebate is based upon the purchase of plant materials and operating supplies that are normally charged to Account 154, Plant Materials and Operating Supplies, a credit shall be made to Account 163, Stores Expense Undistributed. If the rebate is based upon appliances and equipment held for merchandising or contract work, the credit shall be spread over the items in Account 155, Merchandise. To avoid materially distorting the cost of the remaining appliances, if a portion of the items upon which the rebate was based are no longer in stock, a portion of the credit shall be prorated to Account 416, Cost and Expenses of Merchandising, Jobbing, and Contract Work, on the basis of the number of items sold to the quantity remaining in stock.

If the rebate is in the form of a travel package or travel arrangements, the value of the rebate shall be estimated and recorded as a reduction of the cost of the material or appliances upon which it was based in a manner similar to that of the cash rebates discussed above. The beneficiary of the travel or travel allowance shall be designated by or in accordance with policy established by the board of directors. The contra charge to the reduction in cost shall be to an appropriate account depending upon the relationship of the recipient to the cooperative. For employees, this shall be Account 926, Employee Pensions and Benefits; for directors or patrons, Account 930.2, Miscellaneous General Expenses.

621 Integrity Fund

The CFC Integrity Fund was established to assist borrowers in their attempts to stop takeover bids by investor-owned utilities. A borrower makes a contribution to the Integrity Fund in the form of cash or patronage capital refunds. CFC retains the contribution for a 5-year period during which time the borrower earns interest on the balance in its account. Each year, the borrower receives a statement indicating (both for the total fund and the individual borrower's share) the amount contributed, interest earned, disbursements made, and the ending balance. The disbursements from the fund are allocated to each contributing borrower's account based upon their individual account balances. At the end of the 5-year period, the balance in the account, if any, is refunded to the contributing borrower.

Since the contributing borrower will receive a refund only if its funds are not totally disbursed, the contribution shall be charged to expense in Account 426.1, Donations. If any part of the contribution is returned at the end of the 5-year period, the refund shall be credited to Account 421, Miscellaneous Nonoperating Income.

622 In-Substance Defeasance

An in-substance defeasance has been defined as the process whereby a debtor irrevocably places cash or other assets in a trust to be used solely for the purpose of satisfying scheduled payments of both principal and interest related to a specific debt obligation. Under the structural arrangements of an in-substance defeasance, the probability that the debtor will be required to make additional future debt payments is remote. In these specific circumstances, debt has been determined to be extinguished even though the debtor has not been legally released from his obligations under the debt instrument.

The trust established in a defeasance transaction is restricted as to the nature of the assets held. The trust must be funded with monetary assets that are essentially risk free as to the amount, timing, and collection of interest and principal. For debt denominated in United States dollars, ''risk free'' assets are limited to:

1. Direct obligations of the United States government;
2. Obligations guaranteed by the United States government; and
3. Securities that are backed by United States government obligations as collateral under an arrangement by which the interest and principal payments on the collateral, flow immediately through to the holder of the security.

The monetary assets of the trust must provide cash flows sufficient to coincide with the scheduled interest and principal payments on the defeased debt. If the trust is expected to pay the costs associated with the defeasance, such as trustee fees, these costs must be considered in determining the amount of funds required by the trust.

The principles of in-substance defeasance apply only to debt with specific maturities and fixed payment schedules and, as such, do not apply to debt with variable terms in which advance determination of debt service requirements is not possible.

Generally accepted accounting principles (GAAP) address the extinguishment of debt in Accounting Principles Board Opinion No. 26, and Statement of Financial Accounting Standard No. 76, Extinguishment of Debt. In accordance with these two statements, debt which has been defeased remains recorded in the regulated books of account as do the assets placed in the irrevocable trust. They are not, however, recognized as an asset and liability for financial reporting purposes. The transaction, including the total amount of debt outstanding and the total amount of debt that is considered extinguished at the end of the period, must be disclosed in the footnotes to the financial statements as long as the debt remains outstanding.

Debt is frequently extinguished before its scheduled maturity. Debt may be extinguished by the use of the borrower's general funds, or by the reacquisition of another debt issue at a different interest rate or varying terms. As these assets are expected to be revenue producing during those years, both the assets and the revenue they generate may be utilized to meet maturing debt payments. Therefore, in most instances, the dollar value of the assets initially placed in the trust do not equal the dollar value of the outstanding principal balance. The difference represents an ''economic '' gain or loss to the borrower.

To provide consistency in reporting among all RUS borrowers, any gain or loss that is recognized for financial statement purposes should be reported in accordance with the provisions of General Instruction No. 17 of this part. Therefore, the gain or loss should be amortized (for reporting purposes) in equal monthly amounts over the remaining life of the original debt issue or the remaining life of the new issue. The gain or loss may be reported in the current period only in those instances in which it is immaterial to the financial statements.

The RUS Form 7, Financial and Statistical Report, and the RUS Form 12, Operating Report—Financial, must, however, reflect the actual amounts recorded in the books and records of the borrower.

623 Satellite or Cable Television Services

Many electric borrowers have become involved in either providing satellite or cable television services or obtaining satellite or cable television services for their own use. This section outlines the accounting to be followed when recording transactions involving satellite or cable television services.

1. *Separate Subsidiary*

If a borrower provides satellite or cable television services through a separate subsidiary, the investment in the subsidiary shall be recorded in Account 123.11, Investment in Subsidiary Companies. The net income or loss of the subsidiary shall be debited or credited to Account 123.11, as appropriate, with an offsetting entry to Account 418.1, Equity in Earnings of Subsidiary Companies.

2. *Segment of Current Operations*

If a borrower provides satellite or cable television services as part of its normal operations, the investment in satellite or cable television equipment shall be recorded in Account 121, Nonutility Property. All income associated with these services shall be recorded in Account 417, Revenues from Nonutility Operations, and the associated expenses shall be charged to Account 417.1, Expenses of Nonutility Operations.

3. *Sale and Installation of Satellite or Cable Television Equipment*

If a borrower sells or installs satellite or cable television equipment, the equipment purchased for resale shall be recorded in Account 156, Other Materials and Supplies, until sold. The revenues generated from such sales or installations shall be recorded in Account 415, Revenues from Merchandising, Jobbing, and Contract Work, and the associated expenses shall be charged to Account 416, Costs and Expenses of Merchandising, Jobbing, and Contract Work.

4. *Equipment Purchased for Own Use*

If a borrower purchases satellite or cable television equipment for its own use, the investment in the equipment shall be recorded in Account 397, Communication Equipment.

624 Pollution Control Bonds

The construction and installation of pollution control facilities are often financed by issuing tax exempt municipal securities. The funds generated from the sale of these securities are deposited into an account that is controlled by a designated trustee. The funds under the control of the trustee are usually invested, earning interest, until they are needed.

Interest expense accrued on the pollution control bonds during the construction period shall be capitalized in Account 107, Construction Work-in-Progress. After construction is complete, all subsequent accruals of interest expense shall be charged to Account 427, Interest on Long-Term Debt.

Interest income earned during the construction period shall be recorded as a debit to Account 171, Interest and Dividends Receivable, and a credit to Account 107, Construction Work-in-Progress. Upon notification of receipt of the interest in the trustee account, Account 221.XX, Long-Term Debt—Pollution Control Bonds, shall be debited and Account 171, Interest and Dividends Receivable shall be credited. Upon completion of construction, Account 419, Interest and Dividend Income, shall be credited for the amount of interest income earned during the period.

The entries required to account for the transactions associated with the issuance of pollution control bonds are as follows:

Dr. 221.XX, Long-Term Debt—Pollution Control Bonds—Trustee
Cr. Account 221.X1, Long-Term Debt—Pollution Control Bonds
To record the sale of pollution control bonds.

Dr. 107, Construction Work-in-Progress
Cr. 232, Accounts Payable
To record costs incurred in construction of pollution control facilities.

Dr. 131.1, Cash—General Funds
Cr. 221.XX, Long-Term Debt—Pollution Control Bonds—Trustee
To record the transfer of funds from the trustee.

Dr. 107, Construction Work-in-Progress
Cr. 221.XX, Long-Term Debt—Pollution Control Bonds—Trustee
To record interest expense on pollution control bonds.

Dr. 171, Interest and Dividends Receivable
Cr. 107, Construction Work-in-Progress
To record earnings from investments made by the trustee.

Dr. 221.XX, Long-Term Debt—Pollution Control Bonds—Trustee
Cr. 171, Interest and Dividends Receivable
To record receipt of interest income by the trustee account.

Dr. XXX, Various Plant Accounts
Cr. 107, Construction Work-in-Progress
To close completed construction to the primary plant accounts.

625 Prepayment of Debt

Many RUS borrowers have decided to redeem (prepay) their issues of long-term debt. As a result of this redemption, the borrower may incur a gain (discount) or a loss (penalty) on the early extinguishment of debt. The accounting for this gain or loss is highlighted in this section.

If debt is redeemed without refunding (paid with general funds), the gain or loss incurred shall be recorded in Account 189, Unamortized Loss on Reacquired Debt, or Account 257, Unamortized Gain on Reacquired Debt, as appropriate. The borrower shall amortize the recorded deferral on a monthly basis over the remaining life of the old debt issue. Amounts so amortized shall be charged to Account 428.1, Amortization of Loss on Reacquired Debt, or credited to Account 429.1, Amortization of Gain on Reacquired Debt—Credit, as appropriate.

If the debt is redeemed with refunding (refinanced), the gain or loss incurred shall be recorded in Account 189 or Account 257, as appropriate. The borrower may elect to account for the deferrals as follows:

1. Write them off immediately when the amounts are insignificant;
2. Amortize them by equal monthly amounts over the remaining life of the old debt issue; or
3. Amortize them by equal monthly amounts over the life of the new debt issue.

Once an election has been made, it shall be applied on a consistent basis. Regardless of the option selected, the amortization shall be charged to either Account 428.1 or 429.1, as appropriate.

Where a regulatory authority having jurisdiction over the borrower specifically disallows the rate principle of amortizing gains or losses on the redemption of long-term debt without refunding, and does not apply the gain or loss to interest charges in computing the borrower's rates, the alternative method may be used to account for gains or losses relating to the redemption of long-term debt with or without refunding. The alternative method requires that gains or losses be recorded in Account 421, Miscellaneous Nonoperating Income, or Account 426.5, Other Deductions, as incurred. When the alternative method is used, the borrower shall include a footnote to the financial statements stating the reason for using this method and its treatment for rate making purposes.

626 Rural Economic Development Loan and Grant Program

On December 21, 1987, Section 313, Cushion of Credits Payments Program, was added to the Rural Electrification Act. Section 313 establishes a Rural Economic Development Subaccount and authorizes the Administrator of the Rural Utilities Service to provide zero interest loans or grants to RE Act borrowers for the purpose of promoting rural economic development and job creation projects.

Subpart B, Rural Economic Development Loan and Grant Program, 7 CFR Part 1703, sets forth the policies and procedures relating to the zero interest loan program and for approving and administering grants.

The accounting journal entries required to record the transactions associated with a rural economic development loan are as follows:

Dr. 224.17, RUS Notes Executed—Economic Development—Debit
  Cr. 224.16, Long-Term Debt—RUS Economic Development Notes Executed

To record the contractual obligation to RUS for the Economic Development Notes.

Dr. 131.12, Cash—General—Economic Development Funds
  Cr. 224.17, RUS Notes Executed—Economic Development—Debit

To record the receipt of the economic development loan funds.

Dr. 123, Investment in Associated Organizations or
Dr. 124, Other Investments
  Cr. 131.12, Cash—General—Economic Development Funds

To record the disbursement of Economic development loan funds to the project.

Dr. 131.1, Cash—General Funds
  Cr. 421, Miscellaneous Nonoperating Income

To record payment received from the project for loan servicing charges.

Dr. 171, Interest and Dividends Receivable
Cr. 419, Interest and Dividend Income

To record the interest earned on the investment of rural economic development loan funds.

Dr. 426.1, Donations or
Dr. 426.5, Other Deductions
Cr. 131.1, Cash—General Funds

To record the payment of interest earned in excess of $500.00 on the investment of rural economic development loan funds.

NOTE: Interest earned in excess of $500.00 must be used for the rural economic development project for which the loan funds were received or returned to RUS.

Dr. 131.12, Cash—General—Economic Development Funds
Cr. 123, Investment in Associated Organizations or
Cr. 124, Other Investments

To record receipt of the repayment, by the project, of economic development loan funds.

Dr. 224.16, Long-Term Debt—RUS Economic Development Notes Executed
Cr. 131.12, Cash—General—Economic Development Funds

To record the repayment, to RUS, of the economic development loan funds.

The accounting journal entries required to record the transactions associated with a rural economic development grant are as follows:

Dr. 131.13, Cash—General—Economic Development Grant Funds
Cr. 224.18, Other Long-Term Debt—Grant Funds;
Cr. 208, Donated Capital; or
Cr. 421, Miscellaneous Nonoperating Income

To record grant funds disbursed by RUS. If the grant agreement requires repayment of the funds upon termination of the revolving loan program, Account 224.18 should be credited. If the grant agreement states that there is absolutely no obligation for repayment upon termination of the revolving loan program, the funds should be accounted for as a permanent infusion of capital by crediting Account 208. If, however, the grant agreement is silent as to the final disposition of the grant funds, Account 421 should be credited.

Dr. 123.3, Investment in Associated Organizations—Federal Economic Development Loans
Cr. 131.13, Cash—General—Economic Development Grant Funds

To record advances of Federal funds to associated organizations for authorized rural economic development projects.

Dr. 124.1, Other Investments—Federal Economic Development Loans
Cr. 131.13, Cash—General—Economic Development Grant Funds

To record advances of Federal funds to nonassociated organizations for authorized rural economic development projects.

Dr. 171, Interest and Dividends Receivable
Cr. 419, Interest and Dividend Income

To record the accrual of interest on loans made to associated and nonassociated organizations with Federal funds for authorized rural economic development projects.

Dr. 131.14, Cash—General—Economic Development Non-Federal Revolving Funds
Cr. 123.3, Investment in Associated Organizations—Federal Economic Development Loans or
Cr. 124.1, Other Investments—Federal Economic Development Loans

To record repayment of loans made with Federal funds.

Dr. 123.4, Investment in Associated Organizations—Non-Federal Economic Development Loans
Cr. 131.14, Cash—General—Economic Development Non-Federal Revolving Funds

To record advances of non-Federal funds to associated organizations for authorized rural economic development projects.

Dr. 124.2, Other Investments—Non-Federal Economic Development Loans
Cr. 131.14, Cash—General—Economic Development Non-Federal Revolving Funds

To record advances of non-Federal funds to nonassociated organizations for authorized rural economic development projects.

Dr. 171, Interest and Dividends Receivable
Cr. 419, Interest and Dividend Income

To record the accrual of interest on loans made to associated and nonassociated organizations with non-Federal funds for authorized rural economic development projects.

Dr. 131.14, Cash—General—Economic Development Non-Federal Revolving Funds
Cr. 123.4, Investment in Associated Organizations—Non-Federal Economic Development Loans or
Cr. 124.2, Other Investments—Non-Federal Economic Development Loans

To record repayment of loans made with non-Federal funds.

627 Postretirement Benefits

Statement of Financial Accounting Standards No. 106, Employers' Accounting for Postretirement Benefits Other than Pensions (Statement No. 106), requires reporting entities to accrue the expected cost of postretirement benefits during the years the employee provides service to the entity. For purposes of applying the provisions of Statement No. 106, members of the board of directors are considered to be employees of the cooperative. Prior to the issuance of Statement No. 106, most reporting entities accounted for postretirement benefit costs on a ''pay-as-you-go'' basis; that is, costs were recognized when paid, not when the employee provided service to the entity in exchange for the benefits.

As defined in Statement No. 106, a postretirement benefit plan is a deferred compensation arrangement in which an employer promises to exchange future benefits for an employee's current services. Postretirement benefit plans may be funded or unfunded. Postretirement benefits include, but are not limited to, health care, life insurance, tuition assistance, day care, legal services, and housing subsidies provided outside of a pension plan.

This statement applies to both written plans and to plans whose existence is implied from a practice of paying postretirement benefits. An employer's practice of providing postretirement benefits to selected employees under individual contracts with specified terms determined on an employee-by-employee basis does not, however, constitute a postretirement benefit plan under the provisions of this statement.

Postretirement benefit plans generally fall into three categories: single-employer defined benefit plans, multi-employer plans, and multiple-employer plans.

The accounting requirements set forth in this interpretation focus on single- and multiple-employer plans. The accounting requirements set forth in Statement No. 106 for multiemployer plans or defined contribution plans shall be adopted for borrowers electing those types of plans.

Under the provisions of Statement No. 106, there are two components of the postretirement benefit cost: the current period cost and the transition obligation. The transition obligation is a one-time accrual of the costs resulting from services already provided. Statement No. 106 allows the transition obligation to be deferred and amortized on a straight-line basis over the average remaining service period of the active employees. If the average remaining service life of the employees is less than 20 years, a 20-year amortization period may be used.

Accounting Requirements

All RUS borrowers must adopt the accrual accounting provisions and reporting requirements set forth in Statement No. 106. The transition obligation and accrual of the current period cost must be based upon an actuarial study. This study must be updated to allow the borrower to comply with the measurement date requirements of Statement No. 106; however, the study must, at a minimum, be updated every five years. RUS will not allow electric borrowers to account for postretirement benefits on a ''pay-as-you-go'' basis.

The deferral and amortization of the transition obligation does not require RUS approval provided that it complies with the provisions of Statement No. 106. If, however, a borrower elects to expense the transition obligation in the current period and subsequently defer this expense in accordance with Statement of Financial Accounting Standards No. 71, Accounting for the Effects of Certain Types of Regulation, the deferral must be approved by RUS. In those states in which the commission will not allow the recovery of the transition obligation through future rates, the transition obligation must be expensed, in its entirety, in the year in which Statement No. 106 is adopted. A portion of the transition obligation may be charged to construction and retirement activities provided such charges are properly supported.

Effective Date and Implementation

For plans outside the United States and for defined benefit plans of employers that (a) are nonpublic enterprises and (b) sponsor defined benefit postretirement plans with no more than 500 plan participants in the aggregate, Statement No. 106 is effective for fiscal years beginning after December 15, 1994. For all other plans, Statement No. 106 is effective for fiscal years beginning after December 15, 1992.

RUS borrowers must comply with the implementation dates set forth in Statement No. 106. At the time of the adoption of Statement No. 106, rates must be in place sufficient to recover the current period expense and any amortization of the transition obligation. A copy of a board resolution or commission order, as appropriate, indicating that the transition obligation and current period expense have been included in the borrower's rates must be submitted to RUS.

Accounting Journal Entries—Transition Obligation

The journal entries required to record the transition obligation are as follows:

1. If the borrower elects to expense the transition obligation in the current period and there is no deferral of costs, the following entry shall be recorded:

Dr. 435.1, Cumulative Effect on Prior Years of a Change in Accounting Principle or
Dr. 926, Employee Pensions and Benefits
Dr. 107, Construction Work in Progress
Dr. 108.8, Retirement Work in Progress
Cr. 228.3, Accumulated Provision for Pensions and Benefits

To record the current period recognition of the transition obligation for postretirement benefits.

NOTE: A portion of the transition obligation may be charged to construction and retirement activities provided such charges are properly supported.

2. If the borrower elects to defer and amortize the transition obligation in accordance with the provisions of Statement No. 71, the following entry shall be recorded:

Dr. 182.3, Other Regulatory Assets
Cr. 228.3, Accumulated Provision for Pensions and Benefits

To record the deferral of the transition obligation under the provisions of Statement No. 71.

Dr. 926, Employee Pensions and Benefits
Dr. 107, Construction Work in Progress
Dr. 108.8, Retirement Work in Progress
Cr. 182.3, Other Regulatory Assets

To record the amortization of postretirement benefits expenses as they are recovered through rates in accordance with Statement No. 71.

3. The deferral and amortization of the transition obligation under the provisions of Statement No. 106 is considered to be an off balance sheet item. If, therefore, the borrower elects to defer and amortize the transition obligation on a straight-line basis over the average remaining service period of the active employees or 20 years in accordance with Statement No. 106, no entry is required. Instead, the transition obligation is recognized as a component of postretirement benefit cost as it is amortized. It should be noted, however, that the amount of the unamortized transition obligation must be disclosed in the notes to the financial statements.

Accounting Journal Entries—Current Period Expense

The current period postretirement expense should be recorded by the following entry:

Dr. 926, Employee Pensions and Benefits
Dr. 107, Construction Work in Progress
Dr. 108.8, Retirement Work in Progress
Cr. 228.3, Accumulated Provision for Pensions and Benefits

To record current period postretirement benefit expense.

Dr. 228.3X, Accumulated Provision for Pensions and Benefits—Funded
Cr. 131.1, Cash—General

To record cash payments on a ''pay-as-you-go'' basis for postretirement benefits.

Accounting Journal Entry—Funding

If a borrower elects to voluntarily fund its postretirement benefits obligation in an external, irrevocable trust, the following entry shall be recorded:

Dr. 228.3X, Accumulated Provision for Pensions and Benefits—Funded
Cr. 131.1, Cash—General

To record the funding of postretirement benefits expense into an external, irrevocable trust.

If a borrower elects to voluntarily fund its postretirement benefits obligation in an investment vehicle other than an external, irrevocable trust, the following entry shall be recorded:

Dr. 128, Other Special Funds
Cr. 131.1, Cash—General

To record the funding of postretirement benefits expense into an investment vehicle other than an external, irrevocable trust.

628 Postemployment Benefits

Statement of Financial Accounting Standards No. 112, Employers' Accounting for Postemployment Benefits (Statement No. 112) establishes the standards of financial accounting and reporting for employers who provide benefits to former or inactive employees after employment but before retirement. Inactive employees are those who are not currently rendering service to the employer but who have not been terminated, including employees who are on disability leave, regardless of whether they are expected to return to active service. For purposes of applying the provisions of Statement No. 112, former members of the board of directors are considered to be employees of the cooperative.

Postemployment benefits include benefits provided to former or inactive employees, their beneficiaries, and covered dependents. They include, but are not limited to, salary continuation, supplemental benefits (including workmen's compensation), health care, job training and counseling, and life insurance coverage. Benefits may be provided in cash or in kind and may be paid upon cessation of active employment or over a specified period of time.

The cost of providing postemployment benefits is considered to be a part of the compensation provided to an employee in exchange for current service and should, therefore, be accrued as the employee earns the right to be paid for future postemployment benefits. Applying the criteria set forth in Statement of Financial Accounting Standards No. 43, Accounting for Compensated Absences, a postemployment benefit obligation is accrued when all of the following conditions are met:

1. The employer's obligation for payment for future absences is attributable to employees' services already performed;

2. The obligation relates to employee rights that vest or accumulate. Vested rights are considered those rights for which the employer is obligated to make payment even if the employee terminates. Rights that accumulate are those earned, but unused rights to compensated absences that may be carried forward to one or more periods subsequent to the period in which they are earned;

3. Payment of the compensation is probable; and

4. The amount can be reasonably estimated.

If all of these conditions are not met, the employer must account for its postemployment benefit obligation in accordance with Statement of Financial Accounting Standards No. 5, Accounting for Contingencies (Statement No. 5) when it becomes probable that a liability has been incurred and the amount of that liability can be reasonably estimated.

If an obligation for postemployment benefits is not accrued in accordance with the provisions of Statement No. 5 or Statement No. 43 only because the amount cannot be reasonably estimated, the financial statements should disclose that fact.

Accounting Requirements

All RUS borrowers must adopt the accrual accounting provisions and reporting requirements set forth in Statement No. 112 as of the statement's implementation date. A portion of the cumulative effect may be charged to construction and retirement activities provided such charges are properly supported. If a borrower elects to defer the cumulative effect of implementing Statement No. 112 in accordance with the provisions of Statement of Financial Accounting Standards No. 71, Accounting for the Effects of Certain Types of Regulation, the deferral must be approved by RUS.

Effective Date and Implementation

Statement No. 112 is effective for fiscal years beginning after December 15, 1993. Previously issued financial statements should not be restated.

RUS borrowers must comply with the implementation date set forth in Statement No. 112. At the time of the adoption of Statement No. 112, rates must be in place sufficient to recover the current period expense.

Accounting Journal Entries

The journal entries required to account for postemployment benefits are as follows:

Dr. 435.1, Cumulative Effect on Prior Years of a Change in Accounting Principle
Dr. 107, Construction Work in Progress
Dr. 108.8, Retirement Work in Progress
Cr. 228.3, Accumulated Provision for Pensions and Benefits

To record the cumulative effect of implementing Statement No. 112.

NOTE: A portion of the cumulative effect may be charged to construction and retirement activities provided such charges are properly supported. Account 435.1 is closed to Account 219.2, Nonoperating Margins.

If the borrower elects to defer and amortize the cumulative effect in accordance with the provisions of Statement No. 71, the following entry shall be recorded:

Dr. 182.3, Other Regulatory Assets
Cr. 228.3, Accumulated Provision for Pensions and Benefits

To record the deferral of the cumulative effect of implementing Statement No. 112 in accordance with the provisions of Statement No. 71.

Dr. 926, Employee Pensions and Benefits
Dr. 107, Construction Work in Progress
Dr. 108.8, Retirement Work in Progress
Cr. 182.3, Other Regulatory Assets

To record the amortization of the cumulative effect of implementing Statement No. 112 as it is recovered through rates in accordance with Statement No. 71.

Dr. 926, Employee Pensions and Benefits
Dr. 107, Construction Work in Progress
Dr. 108.8, Retirement Work in Progress
Cr. 228.3, Accumulated Provision for Pensions and Benefits

To record current period postemployment benefit expense.

NOTE: If postemployment benefits are accrued under the criteria set forth in Statement No. 43, this journal entry is made on a monthly basis. If, however, the accrual is based upon the provisions of Statement No. 5, this is a one-time entry unless the liability is reevaluated and subsequently adjusted.

629 Investments in Debt and Equity Securities

Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities (Statement No. 115), establishes the standards of financial accounting and reporting for investments in debt securities and for investments in equity securities that have readily determinable fair values. Statement No. 115 does not apply to investments in equity securities accounted for under the equity method nor to investments in consolidated subsidiaries.

At the time of acquisition, an entity must classify debt and equity securities into one of three categories: held-to-maturity, available-for-sale, or trading. At the balance sheet date, the appropriateness of the classifications must be reassessed.

Investments in debt securities are classified as held-to-maturity and are measured at amortized cost in the balance sheet only if the reporting entity has the positive intent and ability to hold these securities to maturity. Debt securities are not classified as held-to-maturity if the entity has the intent to hold the security only for an indefinite period; for example, if the security would become available for sale in response to changes in market interest rates and related changes in the security's prepayment risk, needs for liquidity, changes in the availability of and the yield on alternative investments, changes in funding sources and terms, and changes in foreign currency risk.

Investments in debt securities that are not classified as held-to-maturity and equity securities that have readily determinable fair values are classified as either trading securities or available-for-sale securities and are measured at fair value in the balance sheet. Trading securities are those securities that are bought and held principally for the purpose of selling them in the near future. Trading generally reflects active and frequent buying and selling and trading securities are generally used with the objective of generating profits on short-term differences in prices. Available-for-sale securities are those investments not classified as either trading securities or held-to-maturity securities.

Statement No. 115 requires unrealized holding gains and losses for trading securities to be included in earnings in the current period. Unrealized holding gains and losses for available-for-sale securities are excluded from earnings; however, they are reported as a net amount in a separate component of shareholders' equity until realized.

For individual securities classified as either available-for sale or held-to-maturity, an entity must determine whether a decline in the security's fair value below the amortized cost is other than temporary. If the decline in fair value is determined to be permanent, that is, it is probable that the entity will not be able to collect all amounts due under the contractual terms of the security, the realized loss is accounted for in earnings of the current period. The new cost basis is not adjusted upward for subsequent recoveries in the fair value. Subsequent increases in the fair value of available-for-sale securities are included in the separate component of equity. Subsequent decreases are also included in the separate component of equity.

All trading securities are reported as current assets in the balance sheet and individual held-to-maturity and available-for-sale securities are classified as either current or noncurrent, as appropriate. Cash flows from the purchase, sale, or maturity of available-for-sale securities and held-to-maturity securities are classified in the statement of cash flows as cash flows from investing activities and reported gross for each security classification.

Accounting Requirements

All RUS borrowers must adopt the accounting, reporting, and disclosure requirements set forth in Statement No. 115 as of the statement's implementation date. Unrealized holding gains or losses for trading securities shall be recorded in either Account 421, Miscellaneous Nonoperating Income, or Account 426.5, Other Deductions, as appropriate. Unrealized holding gains or losses for available-for-sale securities held by the corporate entity are recognized as a component of stockholder's equity in Account 215.1, Unrealized Gains and Losses—Debt and Equity Securities. A contra account of the investment account shall be debited or credited accordingly. Unrealized gains and losses for available-for-sale securities held in a decommissioning fund shall increase or decrease, as appropriate, the reported value of the fund.

Effective Date and Implementation

Statement No. 115 is effective for fiscal years beginning after December 15, 1993. At the beginning of the entity's fiscal year, the entity must classify its debt and equity securities on the basis of the entity's current intent. This statement may not be applied retroactively to prior years' financial statements. For fiscal years beginning prior to December 16, 1993, reporting entities are permitted to apply Statement No. 115 as of the end of a fiscal year for which annual financial statements have not previously been issued.

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